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IMPLEMENTATION OF THE HELSINKI ACCORDS

HEARING

BEFORE THE

COMMISSION ON SECURITY AND COOPERATION IN EUROPE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

EAST-WEST TRADE AND THE HELSINKI PROCESS

JUNE 13, 1990

Printed for the use of the
Commission on Security and Cooperation in Europe

[CSCE 101-2-18]

U.S. GOVERNMENT PRINTING OFFICE

31-629 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

J891-3

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EAST-WEST TRADE AND THE HELSINKI PROCESS

TUESDAY, JUNE 12, 1990

COMMISSION ON SECURITY AND COOPERATION IN EUROPE,
Washington, DC

The Commission met, pursuant to notice, in room 2322, Rayburn House Office Building, at 2 p.m., Senator Dennis DeConcini, Chairman, and Representative Steny H. Hoyer, Cochairman, presiding.

In attendance: Commissioners, Representatives Edward J. Markey, Bill Richardson, Don Ritter, Christopher H. Smith, John Edward Porter, Frank R. Wolf; Senators Frank Lautenberg, Timothy Wirth, and Alfonse D'Amato.

Also in attendance: Samuel G. Wise, staff director; Mary Sue Hafner, deputy staff director and general counsel; David Evans, senior advisor for Soviet and East European Affairs; and Bob Hand, coordinator.

OPENING STATEMENT OF REPRESENTATIVE EDWARD J. MARKEY FROM MASSACHUSETTS

Mr. MARKEY. Ladies and gentlemen, if I could have your attention, I'll call the meeting to order and commence the hearing.

At this particular point in time, Chairman Hoyer is on his way to this hearing, and he will be here in the next several minutes, but he has asked that we begin the hearing in his absence, and that he will then stay for the duration.

This is a very important hearing, because it comes at a very important time, when this country, as well as countries in Eastern Europe, and in the Soviet Union, are undergoing a very important transformation. In Eastern Europe, countries are now trying to emulate our system.

As President Gorbachev visits our country, he sees political benefit in having photo opportunities at the front of the Riggs Bank. He has visited more Chambers of Commerce this month than any Member of the U.S. Congress. He is asking help in the establishment of a stock market in the Soviet Union, and people are coming to realize that, and I guess they never really understood this over in the Soviet Union, that the fatal flaw of communism was that there was no money in it, and now that they've begun to realize this fatal flaw, they are trying, as best they can, to correct it.

Marx and Engels felt that if they took the money out of exploiting the masses, the whole system would work, but it turned out that there are a whole bunch of people who like to exploit the masses just for the heck of it, even if there is no great profit.

And now, our job is to try to help them to convert this system over as expeditiously as possible to something which is much more clearly modeled along a system that can help integrate it into Western civilization.

So, during this transition period, Secretary Mosbacher and others are playing a very important role in helping us to deal with the most-favored-nation status issues, the Jackson-Vanik issues, the loosening of export control issues. He was good enough to come here today to give us his incite as to the most recent actions in that area, and we will look forward to his testimony.

Are there any other members wishing to be recognized, wishing to make an opening statement. The Chair recognizes the gentleman from the State of Pennsylvania, Mr. Ritter.

STATEMENT OF REPRESENTATIVE DON RITTER OF PENNSYLVANIA

Mr. RITTER. Thank you, Mr. Chairman.

I realize this is the Helsinki Commission, but somehow, given this room, and given your sitting in the chair, I could swear it was telecommunications and finance all over again. And, there's Bill Richardson, you know.

I welcome you, Mr. Secretary, and, as you know, we have had recently a spirited debate on the floor of the House over the House Foreign Affairs Bill to move the COCOM reforms along, to accelerate those reforms. We have had certain views of the administration on that particular segment of East-West trade. I know it's far wider than just COCOM, but hopefully in your testimony today, or in the question and answer, you can reflect on the recent House passed legislation, and as it relates to the administration's position on further trade with East Europe and the Soviet Union.

I'd also be interested in the administration position on these agreements, most-favored-nation status in particular, and how the situation in the Baltic States influences that position, our position. I know that a number of Members of Congress have already stated that they would not support a simple granting of most-favored-nation status if the economic blockade continues in Lithuania, but there are other Baltic States as well, there are relationships with other republics as well.

And, I might say, there is—and, I'll make this last comment and then yield back—there is a continued war conducted by the Soviet military in the Third World, and I know it's something that we are hoping that it goes away, this war is against the people of Afghanistan, this war continues, and the military dimensions of this war continue in Southeast Asia, continue in Angola and Ethiopia. The Soviet Union is blowing $6 billion a year on Cuba, which doesn't have exactly our best interests in mind, and Cuba is still supporting the FMLN in El Salvador.

So, how does this fit into the Commerce Department and the administration's view of expanded East-West trade?

Not all of this is a violation of the Helsinki Accord, so, perhaps, not totally germane here, but, certainly, the invasion of Afghanistan and the continued military presence there is probably the most single violation of the Accord since their signing, and I would

appreciate your comments on trade extension to the Soviets while they spend $5 billion on a foreign adventure.

I yield back, Mr. Chairman, and thank you for the opportunity to make a statement.

Mr. MARKEY. The gentleman's time has expired. The Chair recognizes the gentleman from the State of New Mexico, Mr. Richardson.

STATEMENT OF REPRESENTATIVE BILL RICHARDSON FROM NEW MEXICO

Mr. RICHARDSON. Thank you, Mr. Chairman.

Secretary Mosbacher is going to get an easy time from me, because I'm very pleased with what he's been doing. Especially your free trade initiative with Mexico, Mr. Secretary. I'm pleased with the administration's posture, balancing human rights issues, security issues, Lithuania, and the other Baltic States, I think the balance is proper. The Soviet Accord on trade is a proper one. And I hope you don't get very scared of this praise coming from a fairly partisan Democrat, but I mean it.

I just have one area, Mr. Secretary, and this is the opening statement, that in principle I would hope you would help us on. The Helsinki Commission, bipartisan members here from the Congress and the executive branch, need to be active participants in the Basket II negotiations, not just on human rights.

We've had some difficulty with elements in the executive branch, in fact, prompting an amendment that intends on making us full partners in this process. And, knowing your success in these other areas, I hope you would get briefed on it.

But, again, Mr. Secretary, welcome. We appreciate your coming here. I appreciate the Chairman, nice to see him as Chairman of this subcommittee, in addition to his many other hats.

Mr. MARKEY. I thank the gentleman, and, once again, it shows why he was an honors graduate of the Fletcher School of Diplomacy in the 7th Congressional District of Massachusetts at Tufts University.

The Chair recognizes the gentleman from the State of New Jersey, Mr. Smith.

BRIEF STATEMENT OF REPRESENTATIVE CHRISTOPHER H. SMITH FROM NEW JERSEY

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee. I'm sorry I was late, I was detained.

Basically, I have, one question, and it's in regards to Romania. As you know, they recently had their election. By most accounts, it was at least a free election, whether or not it was fair remains a very large open question, because the opposition had very little opportunity to take their views, as well as their very names, to the people, because they were denied access to the media.

What does the administration think in terms of restoring MFN to Romania? As you recall, just a few years ago, Congress voted to revoke MFN, and now we are awaiting some movement on this. If you could relay that, I'd appreciate it.

Mr. MARKEY. The gentleman's time——

Mr. SMITH. I'm sorry, Mr. Secretary, I didn't realize, you hadn't given your testimony yet.

Mr. MARKEY. You are not that late, I was going to tell you, you are actually——

Secretary MOSBACHER. I was hoping you would all forget that and move right on.

Mr. MARKEY. You are actually going to receive an award for promptness at this particular hearing. So, the gentleman's time has expired, and I'm sure the Secretary will be willing to address that question in the question and answer period.

The Chair recognizes the gentleman from Illinois, Mr. Porter.

Mr. PORTER. Thank you, Mr. Chairman.

Mr. Secretary, you are doing an excellent job, we look forward to hearing your testimony. I realize that you have to be out of here by 3 o'clock, so I will turn it over to you.

Mr. MARKEY. All time for opening statements by members has expired, so we'll turn to you, Mr. Secretary. Welcome, and we look forward to your testimony whenever you feel comfortable to begin.

STATEMENT OF SECRETARY ROBERT A. MOSBACHER

Mr. MOSBACHER. Thank you, Mr. Chairman.

Members of the Commission, the United States' role in responding to the dramatic events in Eastern Europe and the Soviet Union is clearly a top priority of this administration. These events pose challenges and opportunities for both U.S. business and Government.

The Commission is a vital part of an exciting process. The role of the Conference on Security and Cooperation in Europe is changing to meet the new demands created by Eastern European democratization.

In the past, CSCE was mainly the forum in which basic human rights violations were identified and discussed. As we move into the nineties, the military threats fade, and the dialogue changes from specific human rights problems to the more generic issue of basic freedoms, CSCE promises to be a vital element of our allied efforts to ensure stability in the East.

On several occasions, President Bush described his visions of the Conference on Security and Cooperation in Europe. The President has stated that one of the four top goals of the proposed NATO summit should be to address the common allied objectives for the future of the CSCE.

We firmly believe that NATO will remain the keystone of security in the new Europe, and COCOM will continue to play a vital part of that process.

Nevertheless, it's our hope that the CSCE will be complementary, assisting in building free societies, and providing a forum for political dialogue in a united Europe.

Human rights are not just the absence of state repression. They include the opportunities we take for granted: the chance to work; the right to hold property; and the means to sells one's work and one's product. In a nutshell, human rights and the market economy are threads of the very same fabric.

Three weeks ago, President Bush announced the Commercial Opportunities Initiative, and appointed me Chairman of the Trade Promotion Coordinating Committee, a new working group of the Economic Policy Council. This is not merely another layer of bureaucracy. Our mandate is, and I quote the President,

> To harness all of the resources of the Federal Government to serve American exporting businesses. It is the beginning of the one-stop shop.

At the Department of Commerce, we are laying the groundwork for a relatively permanent commitment to the CSCE objectives. To cite just a few examples, we have begun work on an innovative program to increase export trading companies and export management companies to enhance the competitiveness of small and medium-sized businesses, attempting to take advantage of the incipient private sector in Eastern Europe.

We've concluded trade and investment agreements in Eastern Europe that will provide the necessary framework for American business.

We've entered into a business and economic treaty with Poland, already signed by President Bush, and very soon to be submitted to the Senate.

Finally, in January of this year, we opened the East European Business Information Center.

The Helsinki Commission is still searching to adjust to the new world of East European national identities, the changing relations with and within the Soviet Union, and the burdens and opportunities which confront the West.

In recognition of the expanded and important role which the CSCE will play in the coming months and years, I've elevated the Commerce Department Commissioner of the Commission on Security and Cooperation in Europe to a new position of Senior Advisor to the Secretary for Security and Cooperation in Europe (SCE) Affairs. I've charged the new Office of SCE Affairs to work with you in focusing a coordinated effort in the many broad areas where the work of the Department and the Commission will interact. Trade, the environment, and human rights all are priority areas for Commerce, as well as for the Helsinki Commission.

The Commerce Department hopes to bring to the CSCE the benefits of a broad portfolio in environmental, economic and trade issues, which we believe can have a positive role in shaping the Commission's policies and responses.

With the accumulated expertise of Commerce, and the ingenuity to use those assets and that expertise as tools, we expect to join with the CSCE to make a difference in the tumultuous months and years ahead.

Mr. Chairman, that concludes my opening statement, and I'll be glad to try and answer any questions.

Mr. MARKEY. Thank you, Mr. Secretary.

The Chair will recognize itself for a round of questions.

Could you explain for the Commission the distinction which is made in the administration between the Soviet Union, which is allowing upwards of 10,000 Jews per month to emigrate, and the tying of MFN status and the trade agreement to the formalization of their immigration policy, with the policy towards China, which

has brutally repressed human rights inside their country, has very restricted immigration, and does not, in fact, in my opinion, have the same call upon the most-favored-nation status that the Soviets would, and, yet, they are receiving it. They have received, yet, another extension, and the Soviets have continued to be denied it.

Could you explain for us the administration's choice of policies in either case?

Secretary MOSBACHER. First of all, as far as China is concerned, it had moved further earlier. Despite its grave retrogression last year, it had made very large steps in the right direction over the years prior to that.

As far as the Soviet Union, as you well know, the President did sign the trade agreement, which will, at the proper time, give MFN status to the Soviet Union, subject, of course, to Congress' confirmation. And, as he has said, he will not actually submit that to Congress until the Soviet Union has codified its immigration law.

Now, you know, what they've done is laudable, and that's part of the reason he signed the trade agreement, but the Soviets have not been willing to codify it. As a matter of fact, last November they had the first reading of this immigration bill, and they never pursued it. Now it's put off until next September. We're delighted to see what they've actually done by allowing the immigration of so much of the Jewish population, but they have not shown the will to make that permanent, and they have not allowed us to come in and inspect. As far as when we talk about a higher degree of technology going to the Soviet Union, they haven't agreed to let us come in and inspect and verify what the technology is being used for, as have several of the East European countries, certainly, Poland, Hungary and Czechoslovakia. The Soviet Union certainly has all the wherewithal to still be a threat, though we don't believe they have the motivation.

Mr. MARKEY. I guess the problem that I have is that I know that, for example, the Chinese don't allow for full scope inspections of their nuclear facility, even those which come from the United States, that the Soviet Union is at least operationally now much more liberal than the Chinese. That is, the laws on the Chinese books might say that they are supposed to do the right things, and the Soviets' laws may not yet say that they are supposed to do the right things, but operationally, as opposed to, let's say, in a codified legalistic sense, the Soviets have now clearly passed the Chinese as the Chinese back slide.

And, it just seems to, I think, many, that the Chinese should be punished, that there has to be some way that they pay a price for their back sliding, so they can't retain the benefits which they received when they had advanced previously. Now, as they move backwards, they clearly have problems.

And, I guess that that problem then moves into the telecommunications area as well. That is, in the agreement which was reached last week, it's my understanding, basically, that it only gives Havel's Czechoslovakia, and Walesa's Poland, the same level of technology that we give to the butchers of Tienamen Square. And, it seems to me that those leaders in Eastern Europe now ought to be given a higher level of access to this telecommunica-

tions equipment than the Chinese, especially, at this historic juncture.

And, I wonder if you could lay out for us what, again, the rationale is there, equating Hungary, Romania and Czechoslovakia with the Chinese, in terms of access to the technology.

Secretary MOSBACHER. Despite the Tienamen Square disaster or "tragedy," for from our standpoint it's that, from certainly our view of the Chinese leadership, it's a major step in the wrong direction, I do believe that you have to look it over at a longer period. The Chinese had moved very far.

And there is another aspect to it. A lot of U.S. business has gotten involved, made investments, commitments in China, that to a great degree were put in because of what "we," using the term generically, in government had said would be allowed over a long period of time.

And, I received lots of calls and letters about this—not only from the human side, but also from the future of American business side. They said that if we did that it was going to hurt American business, frankly, without punishing, if that were to be the object, the Chinese. Because, again, there's the whole rest of the world, which is dying to move in there and fill any gap.

Now, having said that, I don't think—and, he stated it very strongly—that our President in any way condones what's happened there, but he does speak to almost a quarter of the world's population in trying to keep the door open. He's very aware of the problems.

Mr. MARKEY. I'll just sum up and make my own comment, which is that I feel that no matter how far historically the Chinese have come, they are still not even remotely comparable to where the Czechoslovakians or the Hungarians are right now. There's a clear difference between these three societies, the latter two are clearly very open and the first is still very closed.

With regard to the relative economic opportunities, even though they may have one quarter of the population, the gross national product of Poland, Czechoslovakia, Hungary and East Germany is greater than that of China, and I know a lot of businessmen have made the trip to China, I just don't think enough of them have yet made the trip to Hungary, and to Czechoslovakia, to see what opportunities are there, in terms of economic activity.

And, we're hoping, again, to open up those incentives for businessmen, so they can see that they don't have to tie their future to a policy which might not make sense in human rights terms in China.

Secretary MOSBACHER. Let me, if I may, Mr. Chairman, just add something that may be of interest to the Commission. What we have agreed on at COCOM in three major areas, as you know, telecommunications, machine tools, and computers, which are the three big areas, do go further than the China green line. And so, I think we've moved forward with the steps in telecommunications, or beyond that, with the common channel signaling, some digital computers, and in the machine tools.

Mr. MARKEY. I really don't have anymore time, although I've just been told that the Soviets have publicly said that they'd be willing

to accept COCOM inspections, and I don't have really time to interact on this point. My time has expired.

The Chairman recognizes the gentleman from Pennsylvania, Mr. Ritter.

Mr. RITTER. Thanks, Mr. Chairman.

As I understand it, and your last comments pointed out, this is just following up on the Chairman's line of questioning, we are taking a look at Czechoslovakia, and Poland, and Hungary, in a way different and above and beyond the way we look at the Soviet Union, or China for that matter. Is that not correct? And that, just maybe, Mr. Chairman, it may be a question of timing. We've just been at this game a lot longer with China, and we've had the setbacks with China.

But, as I understand it, Poland, and Czechoslovakia and Hungary more and more are getting your attention, and the Commerce Department's attention, and the administration's attention in a way that will go well above and beyond that which we do with China or the Soviet Union. Is that a correct understanding?

Secretary MOSBACHER. That is absolutely correct, Mr. Ritter, and I won't go through all the seminars, and the economic affairs things we are doing, unless you want me to. We have had many areas where we've tried to be helpful, both specifically and generally in Eastern Europe, for example, a seminar on legal infrastructure. We are not doing that with China.

Mr. RITTER. I think it is important, I think there is a general consensus in the Congress that some of these countries in Eastern Europe, if not all, some are worthy of substantial attention above and beyond that which we—certainly above and beyond that which we give to China in relationship to COCOM products or whatever.

I would like to ask, what was it in the trade agreement that we fought for, that we fought to get that we felt was valuable to the United States on some level equivalent to the value received by the Soviet Union in the trade agreement?

Secretary MOSBACHER. I think probably the most important single thing, as it is in other areas, is that of the intellectual property right protection. This would be the standard we are seeking in GATT from other countries, what is agreed to in the U.S.-Soviet trade agreement, and that is a major step forward.

Mr. RITTER. So, in a sense, we got the intellectual property rights from the Soviet Union. The Soviet Union got a major trade agreement. Some would say that the poor Baltic States got the shaft. How would you respond to that, that somehow in going forward with the trade agreement we somehow neglected what was happening in the Baltic States, particularly, Lithuania?

Secretary MOSBACHER. The President has said that he is not going to send the trade agreement to the Congress until the immigration agreement is signed. Obviously he has also been working perhaps, as well or better than anyone else could, his quiet diplomacy, at the same time, on the Baltic States. We think there's progress there. We can't, obviously, claim any overt progress, and I think anything that would tie his hands in working these things contemporaneously would be a wrong step.

Mr. RITTER. Yes. I think it's certainly not the aim of Congress to tie his hands, but I think it would be the aim of Congress to put

pressure on the President, on the administration, not to forget the Baltic States, and Lithuania in particular, in the economic blockade, in particular. And, I think the President, perhaps, can use that to his advantage.

Let me ask you a question that may, you know, be a little ticklish. How much of our trade policy, as it is evolving, is developed in order to ensure the survival of Gorbachev, and what is the recent sentence of Yeltsin as the top man in the Russian Republic, due to all these Bush-Gorbachev almost personal dealings?

Secretary MOSBACHER. The President has said, and by definition we all agreed, but I happen also personally to agree, is that we can't be dependent on any one man for relations between the countries.

But, on the other hand, Gorbachev is the leader of the U.S.S.R.; he is still, as of this moment, its President, and it still is a strong united confederation. Mr. Gorbachev has been willing, and has, obviously, moved the Soviet Union further in its own move toward democratization and in allowing it in the East European states.

So, whereas, he's not perfect, and the situation is not perfect, it's certainly better than we've seen under anyone else.

Mr. RITTER. I have some additional questions, Mr. Chairman, but will wait through the next round. Thank you.

Chairman DECONCINI. Thank you.

Mr. Secretary, I apologize for my tardiness. I appreciate very much your being here. I know we've discussed it, and your statement is, indeed, comprehensive.

I'm going to forego questions because of my tardiness and yield to the Mr. from New Mexico, Mr. Richardson.

Mr. RICHARDSON. Thank you, Mr. Chairman.

Mr. Secretary, I wanted to ask you about the Bonn Economic CSCE Conference, and what has the Department of Commerce to make these positive results known to the American business community? And, as you answer that question, I understand that our representation at the conference was not that good, you had 12 businessmen there, that we were outnumbered. I know your very strong efforts to try to get the business community, our business community, involved in the President's efforts with this new Commission.

How much of this is a problem? Is our business community getting a little lethargic, or is permanently fat? What is the problem, Mr. Secretary?

Secretary MOSBACHER. Mr. Richardson, I think the first Bonn meeting was, perhaps, not as well attended as it might have been, because we didn't have enough background to know really what it was all about.

I can assure you, we now have Commissioner Fritts, who will be not only a representative on your Commission, but also my Senior Advisor for the Helsinki Commission. We will be notifying business, they will be involved in it through the United States and Foreign Commercial Service, and through other means.

We can communicate with much of business on a larger base as far as U.S. industry's interest in Eastern Europe, the Soviet Union, and exporting, in general. We find there's a continuing build-up of interest. We had the heads of all the trade organizations in just

last week, here in our office in Washington. They said they had a much higher level of interest throughout their membership, not just in the biggest companies, because they've always been involved, but also in the mid-sized and smaller companies, so exporting per se is growing. And, thank goodness we see historic highs almost every month on our U.S. exports. We also see more interest in Eastern Europe. We are seeing, of course, some dichotomy, because there's also some interest in Mexico and Latin America, which we are happy about. So, each company has to make its own decision about which would be its first priority.

But, I think we are building interest in Eastern Europe. The comprehensive business and economic agreement which the President signed in March, which I am hopeful will come up to the Senate next week, will build that interest further.

Mr. RICHARDSON. I think the CSCE process or the Helsinki process, we talk about East-West trade issues, and we've pointed out the problems, things like suitable office space, telecommunications equipment, business facilities, direct contacts with end users, economic and commercial information, et cetera, these continuing to be problems.

But, do you think that this CSCE process can also be a vehicle to discuss other issues of trade, such as U.S. trade with the European Community? Is this a viable forum to discuss these issues?

Secretary MOSBACHER. I don't know why not. I don't want to digress too much, but at the OECD meeting in Paris last week, we found that the European Community was very intractable in agricultural issues. And, I think, frankly, the more pressure that we can exert to get them to move away from the failure to allow market opening, and to continue with their export subsidies, the more we can do.

Of course, to allow East European goods into Western Europe—agricultural goods are big in many of those countries, particularly, Poland, and Romania—would be a part it.

So, to make a long answer short, yes, I think it can be viable.

Mr. RICHARDSON. Thank you, Mr. Chairman.

Chairman DECONCINI. Thank you.

I'll next yield to the Representative from New Jersey, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Secretary, does the Commerce Department seek to enhance business contacts in areas outside Moscow, for instance, in the Ukraine?

Secretary MOSBACHER. I'm sorry, I didn't hear you, Mr. Smith.

Mr. SMITH. Does the Commerce Department seek to promote business opportunities outside of Moscow itself, for instance, in areas like the Ukraine and other areas of the Soviet Union?

Secretary MOSBACHER. Yes. As a matter of fact, in a joint committee last year, we started putting together a group of U.S. states and a group of Soviet states all over the U.S.S.R., the name of which I've forgotten, but it is the equivalent of American States. We began exchanging information and having more direct communication. The answer is yes.

Mr. SMITH. What kind of products are being traded, say, for instance, with the Ukraine? What do you think they'd potentially export?

Secretary MOSBACHER. For all the Soviet Union, the number one product for export to us is agricultural. When I say "product," it covers the whole breadth of agricultural products, followed by other consumer goods, and now by the very middle level of computer and other high-tech goods.

Mr. SMITH. You are not suggesting they are going to be exporting computers here.

I asked earlier about the MFN for Romania. If you could, give us the current thinking in the Commerce Department, with regards to whether or not MFN ought to be recommended.

Secretary MOSBACHER. We do not have a present MFN formula for Romania. There is a trade agreement that exists, but it's going to take some redoing and discussions. Romania is, frankly, still in a bit of a state of flux from our standpoint, and I think it would be premature to get into the final stages of any MFN discourse.

Mr. SMITH. One final question. How would you compare the U.S. initiative, the Commerce Department initiative, with regards to promoting trade between East and West, ourselves and the Soviet Union, with other industrialized nations like Japan, West Germany, and France?

Secretary MOSBACHER. I think we will have to compare ourselves more with Japan, because their geographic proximity with Europe puts them in an advantageous position.

But, with Japan, in most areas we are ahead, although, frankly, they have tied aid programs and we don't. The latest agreement we are talking about with Japan would preclude that for the future, and let's hope we can work something like that out.

Mr. SMITH. Thank you.

Chairman DECONCINI. I yield to the Representative, Mr. Porter from Illinois.

Mr. PORTER. Thank you, Mr. Chairman.

Mr. Secretary, let me pick up a little more broadly on a question that Representative Smith asked. Bulgaria just held elections, and it looks as if they have elected the same old people, same old Communists who have ruled them for the last 45 years.

Romania elected some reform Communists, they happen to be the ones that threw out Ceaucescu, but it looks like they are the same old—representing the same old ideas that have ruled them for the last 45 years as well.

Yugoslavia has not, although their communism was independent of the Soviet Union, has not moved very rapidly toward free markets or human rights.

The Bulgarians continue to repress the ethnic Turks. The Romanians continue to repress the ethnic Hungarians. The Yugoslavians have terrible human rights problems in Kosovo. Albania now wants trade with the West, but they repress everyone.

What should be the response of the United States in terms of trade policy toward the Balkan countries and surrounding countries, and what do you see the direction going in the future?

Secretary MOSBACHER. I think our response has been, and should continue to be, to work more closely with those countries which have exemplified democracy and human freedom, such as Poland, and Hungary, and Czechoslovakia, to a somewhat lesser degree. We

feel that with the election there, they have pretty strongly established their democracy.

They have also, as I said earlier, been willing to let us verify and oversee an unsighted examination of what they do with the higher tech goods that we send to them.

We have had more trade with them. We, in my view, will continue to build trade with them. We have American telecommunications companies working in all three of those countries now very competitively. In several cases, we hope and believe that just because of the superior products, they are going to get the jobs. But, I think we should continue, and we plan to continue, to concentrate in those areas that have moved the furthest toward democracy, because we do believe there's a link.

Mr. PORTER. And, those that haven't then——

Secretary MOSBACHER. Those who haven't——

Mr. PORTER [continuing]. Will flow with them?

Secretary MOSBACHER. Yes, sir.

Mr. PORTER. We are participating in the formation of an Eastern European Development Bank, along with many of the countries of Western Europe, particularly, the French who are pushing this idea. We will be the largest shareholder with 10 percent. What has your Department been doing to press forward concepts of investment in a private enterprise, rather than the likely direction that the bank might take under French leadership to build huge infrastructure projects in Eastern Europe, when what they really need is investment and more emphasis on free markets?

Secretary MOSBACHER. Mr. Porter, first of all, I couldn't agree with you more that it's the private sector that in the long run is going to make the reforms in all these countries work.

Second, though we have had very little to do with the European Bank, because that comes out of work with the Treasury Department, we are working very closely with the Enterprise Fund, which has been funded by congressional action. We're working closely with Exim Bank and with OPIC.

Mr. PORTER. And, IFC, I hope, too.

Secretary MOSBACHER. Yes, and through all these efforts, through our own U.S. Foreign and Commercial Service, and through all the seminars we have hosted, and our direct work with the private sector—which is really, again, where we are going to have to start—we have been able to get information out and get some of the obstacles out of the way for the private sector to move into, particularly, these top three countries.

Mr. PORTER. Thank you, Mr. Secretary.

Chairman DECONCINI. The Chair yields to the Representative from Virginia, Mr. Wolf.

STATEMENT OF REPRESENTATIVE FRANK R. WOLF FROM VIRGINIA

Mr. WOLF. Thank you, Mr. Chairman.

I want to welcome you, Mr. Secretary. Just a question and one comment. The comment is that I appreciate your comment very much in the question that Mr. Porter had on MFN with regard to Romania and Bulgaria.

I would urge the administration to move slowly there, because there is deep concern here in the Congress. The House and the Senate, on two different occasions, have overwhelmingly spoken on that point, and I think to develop that very carefully and slowly would be very good.

Is there anything we can do as a government, or that we can do as a Congress, to urge more American businessmen to look toward Eastern Europe? I have talked to several, and they, basically, don't think they have any money, they don't know the market. They are doing pretty well here in the United States, and they are not really that interested. Is there anything more we can do to encourage American business to go to Eastern Europe and do business?

Secretary MOSBACHER. We are doing some of those things, but there's always more. I would have to say that, from a very, very broad perspective, part of the problem is in an entirely different area, and, that is, there's a tremendous capital shortage. I don't know whether it's because of regulators, or some other reason or many reasons, but it's hard for mid-sized and small companies to get any new capital from the banks or other places.

But, in a more specific answer to your Eastern Europe question, we have signed a comprehensive business and economic agreement with Poland—which spells out things like arbitration, how our laws and their laws can be tied together, repatriation of funds, accounting systems that work for U.S. companies going over there, and many other issues that raise the comfort level for U.S. companies.

The Enterprise Fund will help U.S. companies over there, as we were saying earlier, as do OPIC and Exim Bank.

There's been a high level of investment in Hungary, and not as high in Poland as we'd like. After all, Poland was the leader in the move to the West, but it probably has further to go in its infrastructure and economic problems. Czechoslovakia is also getting relatively higher investments.

We try to urge investment where we can, but, of course, the final decision is, and should be, up to the private sector.

Mr. WOLF. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman DECONCINI. The Senator from New York, Mr. D'Amato.

STATEMENT OF SENATOR ALFONSE D'AMATO FROM NEW YORK

Senator D'AMATO. Thank you, Mr. Chairman, and, Mr. Chairman, let me thank you for calling this hearing. I'd like to ask that the full text of my remarks be incorporated in the record as if read in its entirety to save some time.

Chairman DECONCINI. Without objection.

Senator D'AMATO. It's certainly good to see my good friend, our distinguished Secretary of Commerce, Secretary Mosbacher here. I'll withhold expressing my total feelings and my frustration as it relates to some of the things that have flowed out of the recent summit, especially concerning the Baltics and trade with the Soviets.

But, I would like to ask the Secretary if he believes that the Senate will be asked to approve the recently concluded United

States/Soviet trade agreement? I'm conceding the point that the President did very clearly spell out that the immigration legislation will have to be dealt with first. What if the Soviet Union does not lift this economic blockade against Lithuania? Do you believe that the Senate will be asked to pass on that trade legislation without the blockade being lifted?

Secretary MOSBACHER. Fortunately, I could really take a brave approach and say that's not my decision, but I won't! I'll say that September is when the Soviets had said they would take up the immigration bill. So, we do have 3 months in which we hope there will be progress, and, perhaps, longer for progress in Lithuania and the other Baltics. Let's wait and see.

Senator D'AMATO. Well, Mr. Secretary, I know that today Mr. Gorbachev is meeting, I think, with the leaders of the three Baltic Republics. I hope it's more than just lip service. The Senate expressed its very strong support for Amendment No. 1569, urging the President not to move forward until two basic conditions are met, that is; first, lifting the blockade, and, second, bona fide negotiations between the Soviets and Lithuania. I think it would be a mistake to go forward without those conditions being met.

But, I hope that that will be done before September. I didn't know that we were talking about that kind of time frame.

Let me ask you, Mr. Secretary, do you have any reason to wonder why the Soviets have not moved, on the question of immigration, before this? At one point in time, May 21 was the target date, I believe, we were told that they were considering taking up legislation providing immigration, free immigration to all of its people. But, I don't know if you've picked up a sense of why that has been delayed.

Secretary MOSBACHER. I think that, as a matter of fact, when I first got involved with the Soviet immigration issue it was last year, and they said it would be November. They did have, in the Soviet Union, the first reading of this bill in November 1989, with indications that they would have the second reading shortly thereafter. That's obviously faded into the future.

At that time, a lot of us thought that it pertained to Jewish immigration. Since then, it appears to be a broader immigration problem or situation that they are having difficulty coming to grips with.

Senator D'AMATO. Mr. Secretary, finally, I'd like to state to you that there have been a number of our local officials in the State of New York who have commended your Department for reaching out and responding to their requests concerning trade missions, et cetera, to the Eastern Bloc. I think that, obviously, capital is always a problem. I know that our county executive, for example, on Long Island, is struggling to move from a defense-oriented industrial base. He is looking to develop high tech approaches that Long Island has to offer to these countries. And, just recently, our local comptroller was included in one of these missions. I think that's the kind of thing we can give some breadth and meaning, and help those locals and the small businessmen they represent take advantage of that opportunity.

As a result of one of the meetings, I think it may have been in Hungary, they have now been invited to participate in a series of

ongoing exchanges to develop and promote trade. I want to commend you, because that is the kind of thing that can give some very real substance to this effort and help our economy, as well as helping the free market economy in these countries develop.

And, I want to thank the Chair.

Chairman DECONCINI. Mr. Secretary, we have two more Senators, if you can stay just a few more minutes. The Senator from New Jersey, Mr. Lautenberg.

STATEMENT OF SENATOR FRANK LAUTENBERG FROM NEW JERSEY

Senator LAUTENBERG. Thanks very much, Mr. Chairman.

Mr. Secretary, I'm sorry that I wasn't here to hear the discussion that took place.

On the broader political or geographic issue, I share the view of a lot of my colleagues that we ought to kind of hold something out to try and get the issues of independence put to rest. It doesn't look like it's going to happen, but I'd like to ask you in a hypothetical manner, what kind of progress has been made on United States/U.S.S.R. negotiations for an investment agreement that would give some comfort, some encouragement, to American businesses to invest there? Is there any progress in that area?

Secretary MOSBACHER. Yes, Senator. We started on this with the JCC, Joint Conference Committee—Joint Commercial Commission, I don't have all my alphabet soup right yet! And we have had a second meeting scheduled on that. I believe that we will be able to cover some of these items further in those Joint Commercial Conference meetings—that is the goal, to do many of those same things.

Now, we found that with Poland, where we at Commerce started this, as we made it a comprehensive business and economic agreement, it was not just in the purview of Commerce, it was also in the realm of State and USTR. So, this may have to go the same way.

Senator LAUTENBERG. I'm talking, in particular, about the Soviet Union, the results of the meetings that we've had with the two heads of state, very important, I think. I think there's progress being made.

And, I came back from a visit just a couple months ago in the Soviet Union and didn't see any way at all that we were going to bridge a gap. I came, as you did, to government from business, to bridge the gap that leaves the business persons scratching their heads and saying, hey, why bother, forget about the political issues, what's the investment sound this year?

And, we know, at least this Senator believes, that in order to have a positive relationship it has to be commercial and private.

And, I just ask you if there has been any progress at all on a commercial understanding to make investment inviting. Is there anything, I mean, you know, the rubles, you can have all you want and it doesn't buy anything, what do we do about convertible currency, what we do about facilitating communications? Is there anything at all that you can point to, Mr. Secretary, and I know you've

been actively engaged here, that says, yes, we are making progress, and we are at a point where X, Y or Z can happen?

Secretary MOSBACHER. I'd like to point to a lot of great progress, but in truth, the progress has been minimal because they don't have a lot of products. This is just the way life is; they don't have a lot of products to sell us. And, what they do have would have to be, to some degree, on a barter basis, because at this point they are almost running out of hard currency. They are also very much in arrears on paying companies that have sold things to them. The estimates are vague, but they are certainly in excess, probably, of a billion dollars; it could be much more than that.

And so, since you can't count on getting paid for your product, which is something you know much about, the only other way to do it is barter or hope by making investments now, down the line you'll get something. It's a tough problem.

Senator LAUTENBERG. Very tough. What's the U.S. Government doing to encourage the business investment side of it? I mean, if there is no natural investment encouragement, then we have to turn to the political thing, and they were up to the third reading on that immigration bill, and I was there in March and they said, oh, it's going to be done in a couple days. And then, I spoke to the Assistant to the President on Immigration Rules, and he said, oh, any moment, and then everybody walks away and the next thing we hear, oh, that's off the boards and now it's back to September.

So, if there isn't a political reason for doing this, I'm trying to find out whether there's any economic reason for doing it. What is our government encouraging—and, I think that we should do it as a positive gesture, as a way to bridge the gap, is America—have we done anything to encourage or to secure businesses against unusual risk?

Secretary MOSBACHER. We are not ready to move in with a major guarantee. That is maybe what it will take eventually, and then it's a difficult decision to know whether we want to do that.

In the meantime, there have been quite a few companies which have been selling to the Soviet Union for a long time, and have been getting paid regularly for many years, particularly, in the agricultural area. And they do have those needs. I think they will come up with some extra money. It's the old story of, if they want something badly enough, they'll find the hard currency for it.

Senator LAUTENBERG. Mr. Secretary, I'll conclude with this, but I just want to ask you if you can point to anything that our government is doing to enable, or to permit, or to encourage our companies to be more competitive in the whole Eastern European marketplace? We've been operating, I think, on a slow burner, and we haven't yet boiled up, and I think our government has to encourage people. We have a stake much larger than the ordinary business stake. Is there anything that you can point to that——

Secretary MOSBACHER. Oh, yes, when you get away from the Soviet Union and move to the other countries of Eastern Europe, we've done a lot, and we still need to do a lot more. But, we have had missions over there. We have guaranteed investments through OPIC, against loss by currency exchanges. And we have ensured some investments, and we continue to do more. We do have the Enterprise Fund. We have made other loans. We have done what we

can to put together, or at least help put together, joint ventures, which are so important to them. We have also had experts go over there and talk to them, whether they are lawyers, or accountants, or technicians or executives, the IESC, which have gone over to work with those people in Poland, Hungary and Czechoslovakia.

Senator LAUTENBERG. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman DECONCINI. The Senator from Colorado, Mr. Wirth.

Senator WIRTH. Thank you very much, Mr. Chairman.

Mr. Secretary, we are pleased to have you here.

Are you familiar with the recent decision that banned the fiber optic agreement between the U.S. West and the Soviet Union?

Secretary MOSBACHER. Yes, I am.

Senator WIRTH. What was the rationale for COCOM banning that venture?

Secretary MOSBACHER. The rationale is that we don't believe as high a level of technology, and that's an extremely high level, can go to a nation which has made some laudable improvements but still has not done the same things that the three major East European trading partners of ours have done. That is, they have not passed an immigration bill, they have not agreed to let us verify, and oversee, and inspect the high technology items on site, and they do not have a non-military economy that we can be sure will not be a military threat to us. They still have an extremely strong military economy, and we hope and believe they don't intend to be a threat, but without these other items I don't think we can afford to give them that option.

Senator WIRTH. Now, you could use that same rationale, for lap-top computers too, couldn't you? I mean, we decided that we were going to allow a whole variety of small computers into the Soviet Union, but we decided not to allow a fiber optic channel, which you can make the argument would do a great deal to allow the Soviets to better communicate with themselves and the outside world and assure a more stable world. After all, some people argue that Korean airliner 007 got shot down because there was no communication between the armed forces in the eastern part of the Soviet Union and Moscow. They couldn't talk back and forth fast enough, and so, the people in charge of the eastern military district went ahead and shot down the Korean airliner.

Secretary MOSBACHER. It's a matter of degree, though.

Senator WIRTH. What?

Secretary MOSBACHER. It's a matter of degree. What we're talking about on this highly sophisticated telecommunications is something that would allow, with very, very little change, a lot of military use.

Senator WIRTH. Well, in the case of lap-top computers, if you look at the armed forces of the United States, we are absolutely dependent upon a small computation being able to determine and control a vast amount of what goes on.

Did the Commerce Department agree with the fiber optic venture decision?

Secretary MOSBACHER. Yes.

Senator WIRTH. You were supportive of that? Was that a recommendation made by the Commerce Department or made by the Defense Department?

Secretary MOSBACHER. It was an interagency report that, after great consultation, a great amount of consultation among the agencies, Defense, State, Commerce——

Senator WIRTH. Was your recommendation to turn down the Commerce Department?

Secretary MOSBACHER. It was a joint recommendation, yes.

Senator WIRTH. And did the Commerce Department agree that that was the right policy as well?

Secretary MOSBACHER. That's correct.

Senator WIRTH. Was that reviewed by all of the COCOM countries, all 17 of them, at the recent Paris meeting?

Secretary MOSBACHER. Yes, it was.

Senator WIRTH. And, have all 17 agreed not——

Secretary MOSBACHER. Let me say that specific project was not reviewed by all, because it's an export control project of this country.

Senator WIRTH. Well, what was agreed by them, the 17 nations, related to that?

Secretary MOSBACHER. What was agreed by the 17 nations, the differentiation between the three nations I mentioned earlier, and the Soviet Union, for the reasons I've already outlined.

Senator WIRTH. I understand, but related to the fiber optic venture, did all 17 nations agree not to embark upon such a development project within the Soviet Union?

Secretary MOSBACHER. They agreed to the differentiation which——

Senator WIRTH. No, let me ask you the question again. Did all 17 nations agree not to embark on the development of the fiber optic project?

Secretary MOSBACHER. They all agreed that there would be nothing done that would be outside of what was agreed upon in the differentiation, which covered all the items we are talking about.

Senator WIRTH. So, we would expect that none of the 17 nations would build a fiber optic program within the Soviet Union, is that right?

Secretary MOSBACHER. Anything that included a fiber optic program that went beyond what was agreed upon in the COCOM nations. Fiber optic by itself is just one aspect of it. But if you put all, even some, of the bells and whistles on . . . in other words, laying a fiber optic line by itself is entirely different than putting one on that has all the other capabilities.

Senator WIRTH. Is there any legislative redress on this? The House of Representatives has passed a very broad piece of legislation, much broader than the allowable list that came from the administration, isn't that correct?

Secretary MOSBACHER. I'm not familiar with that. From what I'm told, the House has passed it. I don't believe it's become law at this point.

Senator WIRTH. But, is the administration supporting the broadening of the number of items——

Secretary MOSBACHER. No. I think the success in COCOM makes totally unnecessary any additional broadening, because we found that we can operate very well with our COCOM allies under the present system.

Senator WIRTH. Let me finish up with one final question, and maybe Congressman Ritter might want to follow up related on House issues. There are a number of very sophisticated pollution control technologies that also, involve very sophisticated computer controls.

Do you know if there are any U.S. pollution control export items, or is there broad categories of pollution control equipment that would be denied export licenses to the Soviet Union?

Secretary MOSBACHER. I'm not familiar with the details. I do know that in the pollution control area, generally, we are very interested in building the export capabilities.

Senator WIRTH. I know, but some also are very, very sophisticated, and it seems to me might meet the requirements that we were talking about before.

Secretary MOSBACHER. I'm not familiar with what items you are talking about, so I can't answer that.

Senator WIRTH. I was wondering if there were any. I don't know if there are any. There might have been some of these high technology items on the U.S. list that we couldn't export to the Soviet Union.

Secretary MOSBACHER. I would say regardless of the business, whether it's pollution control or anything else, if it has as an integral part of it, a kind of a high technology that can be immediately and easily turned into military use by a country that has that capability, which is the case with Soviet Union, we would, at this point, not export it.

Senator WIRTH. Well, Mr. Secretary, we appreciate your being here.

Thank you very much, Mr. Chairman.

Chairman DECONCINI. Thank you.

I'll yield to the Cochairman, Mr. Hoyer.

STATEMENT OF CO-CHAIRMAN HOYER

Cochairman HOYER. Mr. Secretary, I'm not going to ask you any questions. I might say, however, it's the rare witness that has a member of the Commission to advise them, as ably as Assistant Secretary Fritts has advised you on questions from time to time.

I will ask, Mr. Chairman, that my statement be included in the record at this time. I would like to highlight the fact that Basket II is going to get a tremendous focus as we move into the nineties. For the last 15 years Basket I and III have received the majority of focus, and the United States, of course, has been the great leader on Basket III, as well as on Basket I.

But, I want to say that we are very appreciative of your appointment of Secretary Fritts, his involvement, and his commitment to the Helsinki process, and to the implementation of all Baskets.

Secretary MOSBACHER. Thank you.

Cochairman HOYER. Thank you for being here.

Mr. RITTER. Will the gentleman just yield for a quick comment on that. I would, as a Ranking Republican, would like to echo the comments of our House side leader on the Commission, and I feel you and your envoy, in Mr. Fritts, have made a significant contribution to the Commission, and we appreciate your coming—we appreciate your coming up here and working with us on these issues, because these issues are going to be the centerpiece of the new relationships within CSCE. So, we are very happy that you've been so cooperative.

Thank you.

I yield back.

Chairman DECONCINI. Mr. Secretary, I join in the comments about Assistant Secretary Fritts. He attends our meetings and is a real participant, and he's got a lot of other things to do, and I appreciate you coming here.

I have a statement I will also put in the record. I am not going to pose any questions to you, Mr. Secretary, because of time.

I do want the record to show—and my statement will touch on that—that my recent trip to Estonia revealed the real dismay of people there that I talked to including former Communist Party members, about the United States making a trade agreement with the Soviet Union. They interpret that as a turnaround on our position of non-recognition of the annexation of 1940, and I didn't have a good answer for them, except that I think the Congress is going to, perhaps, have the last word. I hope so. And, I hope whatever influence Mr. Fritts might have on you, and you on the President, that we do not continue down the road of continuous trade agreements with the Soviet Union in light of their action towards Lithuania, and their threatened action to Estonia and Latvia. That we stand here as a nation prepared to make a concessional trade agreements bothers this Senator a great deal.

Does the Cochairman have anything further?

Cochairman HOYER. Mr. Secretary, I just wanted to conclude my statement by saying that, although we are now going to focus on the second Basket, and although there is now a tremendous inclination to have additional economic intercourse between East and West, which I think will have a positive result, and although I understand the limited effectiveness of economic sanctions and the failure to enter into economic relations, I am one who believes, having met with the Soviets on a relatively regular basis for the last 5 years, that MFN has made a difference.

I know that there are those who argue that, no, it's simply been the personal involvement or the political positions of the leadership in the Soviet Union from time to time that have dictated their policies and not MFN, but if that's the case, they've asked about it at every meeting, they have criticized this at every meeting. It is, obviously, been an issue of significant concern to them.

I would hope that we would continue to state that, if you want to do business with the United States, and if you want to project that message, we expect, you to be consistent with international principles and accords, which means, of course, human rights observations.

I know the administration is committed to that objective, and I think we need to send that message very strongly in the future.

Thank you, Mr. Chairman.

Chairman DeConcini. Mr. Secretary, Mr. Ritter had one other request.

Mr. Ritter. I would like to ask unanimous consent, Mr. Chairman, that the Secretary be permitted to enter, for the record, the Commerce Department response to the recent House passed liberalization of the COCOM rules. I think it relates, to some extent, to the line of questioning of Senator Wirth, and it relates to something that I had asked about in my opening statement, and I think that would be an effective part of the record of this hearing.

I yield back. Thank you, Mr. Chairman.

Chairman DeConcini. Thank you, Mr. Secretary, if your office can do that, and thank you very much for extending your period here. I appreciate immensely your personal involvement and willingness to come before the Commission. It is very helpful in our determinations.

Secretary Mosbacher. Thank you, Mr. Chairman, Mr. Cochairman.

Chairman DeConcini. If we could have Mr. Ericson, Mr. Hart, Mr. Ward, please, come forward.

We are very fortunate to have three expert witnesses. Mr. Ericson is currently a Professor of Economics at Columbia University. In 1987, he was the Fulbright-Hayes Research Fellow at the U.S.S.R. Academy of Science. Professor Ericson has also held teaching positions at Northwestern University, Yale, Harvard and Berkeley.

And also, Mr. Barry J. Hart is a tax partner in the Washington law office of Jones, Day, Reavis & Pogue, and specializes in international tax and corporate law. He has extensive experience representing U.S. multinationals in Europe, in the Middle East and throughout Asia, and has represented foreign multinationals making direct and portfolio investments in the United States.

And, Mr. Wendell B. Ward is presently Vice President of Marriott Hotels and Resorts in the Development department, with responsibilities for the Company's international hotel development program in Eastern and Western Europe, Latin America and in the Caribbean.

Gentlemen, your full statements will be included in the record, if you'd summarize them. First, let me thank you very much for being with us. We'll start with you, Professor Ericson.

PANEL CONSISTING OF RICHARD ERICSON, PROFESSOR OF ECONOMICS AT COLUMBIA UNIVERSITY; BARRY J. HART, TAX PARTNER IN THE WASHINGTON LAW OFFICE OF JONES, DAY, REAVIS & POGUE, SPECIALIZES IN INTERNATIONAL TAX AND CORPORATE LAW; AND WENDELL B. WARD, VICE PRESIDENT OF MARRIOTT HOTELS AND RESORTS IN THE DEVELOPMENT DEPARTMENT;

STATEMENT OF RICHARD ERICSON

Mr. Ericson. Thank you, Mr. Chairman, members of the Commission.

I would like to focus these comments on the situation in the Soviet Union, and, in particular, on the issues of creating market

economies and private enterprise as an essential basis for truly enhanced trade and cooperation in the CSCE framework.

Let me begin by noting that the Soviet Union, together with Bulgaria and Romania, are economically among the least promising in terms of reform, and, hence, the potential for vastly expanded trade interaction.

East Germany, by virtue of its impending monetary union and ensuing absorption in the West German economy will surely succeed in that transformation and, thus, has the best prospects of all the East European economies of full integration into the world economy.

Poland, I think, together with Czechoslovakia and Hungary, are the most promising of the East European economies, yet, only Poland has taken a serious first step toward the development of a true market economy. It's now facing a far more difficult task of restructuring its industry, construction, and commerce; in particular, the process of denationalization leading to a fairly thorough privatization, and of fostering and financing the shutdown and transfer of capital out of unpromising sectors and into new areas, and the fostering and financing of new ventures and business start-ups that are necessary to generate the competition for maintaining the market system that is now being formed.

Hungary and Czechoslovakia are somewhat slower, though, they have what one should consider better preconditions for the development of functioning market economies, integrable into the world economic system.

The Soviet Union, however, remains the most problematic of the more advanced economies of Eastern Europe. It has made very little progress to date on implementing the Bonn meeting recommendations in the CSCE framework, and, indeed, in a number of areas has begun to backtrack, due to the internal political problems.

The creation of a market economy is verbally extremely prominent, particularly since March and the appointment of new advisors and counsel to President Gorbachev, but nothing is really being done to provide the necessary conditions for real functioning markets.

Examples of the backtracking, which are gone into in more detail in the paper, are in the stabilization program which has now, in Soviet policy, replaced the move toward significant reform; in the use of price increases in place of price reform, coupled with full compensation, or major compensation, which will ensure that these price increases are merely inflationary, without addressing any of the structural problems of the Soviet economy.

Behind all of this, I think, is a significant lack of comprehension of just what it is that is necessary to have a functioning market economy.

With regard to private ownership of economic operations, to private enterprise, there is still no sign of that being seriously introduced. The new law on property, so called, introduces, rather, various forms of pseudo private property, under euphemisms of collective and individual labor property and so on, property which lacks the essential characteristics, the essential economic characteristics of useful private property, for example the freedom to dispose of

and to realize capital asset value of property is lacking, and indeed is denied and still criminalized in the Soviet context. The freedom to combine with other factors of production in order to generate wealth is still significantly restricted. Private enterprise is, indeed, criminalized, and trading activities are considered speculation.

There's no sign, further, of a real intention to change. The objective, in the words of the President, is still a Socialist regulated market economy, some sort of halfway house between the Stalinist command economy and the market economies of Western Europe, for example.

With regard to a convertible currency, I don't think that is even a distant prospect at the present time. The most basic prerequisite for any form of a convertible currency is that you have a real domestic currency with what is called "commodity convertibility." That is, that currency has to be both necessary and sufficient to consummate a transaction. The ruble in the Soviet Union is neither at the present time.

Of course, special deals can be worked out supported by government guarantees of convertibility of limited amounts, and, indeed, we've seen a recent deal signed with General Motors, which is promising payment in convertible currency they presently don't have. But, as the Soviet Union, and if the Soviet Union, continues to decentralize, it will become more difficult for the government to guarantee that kind of convertibility, and, indeed, we've seen, in association with the decentralization, growing payments problems.

With regard to the prospects in the Soviet Union, I think they are still rather poor and not apt to improve in the near future, that being considered the next 3 to 5 years.

Debt and payment problems, it seems, can only grow. Decentralization has led to over-commitment, confusion and mistakes in the process of negotiating deals with foreign partners. There's been a drop in traditional hard currency earnings, and the central authorities have moved to reassert control over the flow of funds, in part in response to this, but also in part in response to the attempts of the Baltic Republics, among others, to exercise control over their own hard currency earnings.

With regard to the domestic economic situation, the deterioration noted, an unprecedented deterioration in Soviet history, in the first quarter has only accelerated in the second quarter of 1990.

In place of dramatic reform, we've now seen dramatic waffling, a series of half measures, steps forward and then retreats, without coming to serious changes or implementing serious turns. The stabilization program of 3 to 5 years has now been placed fully in front of continuation of the reform, even though we hear rumors that Petrokov and other close advisors are working on something more radical. And, finally, there is something of a growing breakdown of authority and effective control, state orders being refused, despite their supposedly legal mandatory nature, by state industries which claim they cannot meet those orders because they didn't get the appropriate inputs at the right time. We have various regions and branches of industry boycotting each other, blocking shipments, sometimes for political and sometimes purely as retaliation for shortfalls in previous shipments.

It seems to me that the bottom line of this is that there is rather little that can be done with respect to the Soviet Union by the United States beyond offering verbal encouragement, and maintaining a supportive political environment, and allowing American business to seek out and conclude profitable deals.

However, the Soviet economy at present is in a very poor position to take advantage of any kind of easier trade. For example, there is no way for them to determine economically what their true comparative advantages are, particularly, in the detailed nomenclature in which trade actually takes place.

Western investment in the present environment is apt be wasted in the black hole of the crumbling command economy. Again, there is no way to seriously evaluate projects, in particular, capital evaluations are absolutely bizarre. That's the only word one can apply to them in the Soviet Union. And, furthermore, there is little way to realize any earnings in a real money. Convertibility is necessarily going to be limited and subject to special deals guaranteed by the Soviet Government because of their priority.

Finally, it seems to me that there is little reason to believe that any form of state credit, or bank credit, or direct state aid will be any better used in the Soviet Union of the 1990's than it was in the Poland of the 1970's, and, indeed, there are many reasons to believe that it will be even less effectively used.

Thank you.

Chairman DECONCINI. Thank you, Mr. Ericson.

I'm just going to go ahead and take all the statements and then I do have some questions, and I'm sure the Cochairman does, too.

Mr. Hart?

STATEMENT OF BARRY J. HART

Mr. HART. Yes, thank you, Mr. Chairman, Mr. Cochairman. I'm pleased to be able to present testimony before you today. I'd like to organize that testimony into three main parts.

The first part is a brief summary of the Bonn Conference and the principles which were issued at the conclusion of the conference; the second part constitutes a survey of some of the "reforming countries" as the principles use the term, that is, the Central and East European countries, and the Soviet Union, and where they stand on the spectrum from aspiration to implementation of the Bonn principles. Finally, I'd like also to give one man's view of what the U.S. response can and, perhaps, should be to the Bonn principles.

First, the Bonn Conference; it constituted several firsts, as you may know. Let me issue a disclaimer by saying that I'm here as an understudy to my partner, Michael Silverman, who attended as a public member of the U.S. delegation, but he is in Budapest today and, obviously, could not be here. But, I know these are his sentiments and observations.

It was the first CSCE Conference to address economic and business issues. It was also the first CSCE Conference to include private sector representatives from Eastern Europe and the Soviet Union, previously unprecedented.

As you know, the culmination of the conference was the issuance of a set of principles called the "Bonn Principles." These were designed to promote market economies, in which prices were based on supply and demand; private property was recognized; and government policies were to promote free flow of trade, capital investment and profit repatriation, and currency convertibility.

I think these principles are remarkable, not only for what was said, but who said it. The principles are the first international accord in which the Soviets recognized private property, as opposed to state or citizen property. It is also the first time in which the Soviets publicly accepted the necessity of currency convertibility, even though they only committed to make progress towards it.

The principles, as a tactical measure, I think are important, in that the free market exponents in the reforming countries can use them as a sovereign declaration of intent to press ahead in the face of what will be the inevitable resistance of the nomenklatura, the party bureaucrats, who have much to lose and perceive to have little to gain from a market economy.

The principles, as a practicing lawyer I'm gratified to say, acknowledge the primacy of the rule of law as opposed to party decree, and, specifically, acknowledge the need for reliable legal and an administrative framework for cross-border business and investments. Specifically, the principles acknowledge the need for commercial legislation in all of its manifestations, including intellectual property protection, companies laws (*ie,* a basic corporation act), taxation, bankruptcy and insolvency codes, and competition, as well as investment protection.

Of course, the CSCE's ultimate intent in issuing the Bonn Principles was the full integration of the reforming countries, as I've said, into the international economic system. This has occurred and is occurring with varying degrees of vigor and success. I'd like to give you a legal and economic tour of some of those countries for purposes of illustration.

Take Hungary first. Hungary is, perhaps, the furthest ahead in its democratization and Western economic development. It has the largest number of operating joint ventures to date, well over 1,000. It has the most complete set of commercial laws on in-bound business and investment. To a very large degree, the Hungarian forint is now freely convertible for foreign joint venture partners, and permits profit repatriation as a result. In addition, this month, I believe, they are to introduce the first reforming country capital market, that is, a stock exchange. I believe that's scheduled to open in several weeks.

Poland. Undoubtedly, Poland has been the most aggressive in embracing the private sector, even though it has suffered a painful economic free fall in the process. There are over 400 operating joint ventures in Poland right now. The Polish Parliament is drafting new bankruptcy and corporate codes, and the Parliament is also deliberating with respect to the privatization of 10 to 15 state-owned enterprises by the end of this year. As of yet, they do not have a privatization code, but that is next on the agenda.

Czechoslovakia, with which I am personally familiar, is a newcomer, really, to the development scene, of political pluralism and movement towards a market economy, but they are coming on

rather quickly. In April of this year, the Parliament passed a number of important pieces of commercial legislation, including a new Companies Act and significant amendments to the Joint Venture Act. I might add that the Companies Act in Czechoslovakia takes as its model much of the German corporate code, where GMBH's and AG's are the established legal entities to conduct private enterprise.

Czechoslovakia has also been the first reforming country to have a trade agreement with the United States, having been initialed or signed in April of this year. It is also applying for membership in or affiliation with many, if not most, of the international organizations, including the World Bank, IMF, OECD, the EEC, and is reinvigorating its role in GATT.

On the drawing board, it has a constitutional commission that it has set up, constituting a broad pluralistic approach to reformation of the current Czech Constitution. There are U.S. delegates to that. A senior member of our firm, Senator Charles Mathias, is a member, and recently came back from the Commission's first meeting.

Also, the Czech Parliament will soon introduce, after the recently concluded national elections, new tax legislation. It will, one hopes, vigorously press forward with the stated objective of the privatization of numerous state-owned enterprises, and will also, one hopes, make progress towards the convertibility of the Czech crown, several goals that have been announced by key Czech Government officials who, presumably, will retain their posts even after the recent elections.

The Soviet Union, as Professor Ericson has said, is a bit murkier. The Joint Venture law which was enacted in 1987 is surprisingly flexible, but regrettably ambiguous and confusing due to a patchwork series of decrees, guidelines, regulations and instructions that have been promulgated by various Soviet ministries that have had, or purport to have, jurisdiction over particular ventures operating there.

We are aware that a new Joint Venture law, a new Companies Act, a new competition law with consumer protection features, and some 20 or more other pieces of commercial legislation are now being drafted. The hope is that the existing confusion and ambiguity will be clarified, although the fear is that it may well not be, and that further rigidity, and ambiguity, and confusion will be injected into the system.

Our advice to our clients, and I think the best advice to businessmen generally operating in the Soviet Union now is, in their Joint Venture agreements, to make them as comprehensive as possible—in essence, "to make your own law," rather than to rely upon implicit incorporation of laws in those documents, and many of our clients have heeded that advice.

The United States-U.S.S.R. summit that recently took place here in Washington may have piqued a great deal of U.S. business interest in the Soviet Union, but, as of yet, there are few operating joint ventures, even though there are quite a number currently registered.

I think the greatest obstacle to a joint venture becoming operational is the lack of ruble convertibility that Professor Ericson has

alluded to. It has made counter trade and offset arrangements almost a necessity in concluding current business arrangements and joint ventures in the Soviet Union.

The recently signed trade agreement with the Soviet Union recognizes this problem and specifically encourages monetized trade and abjures forced counter trade.

Finally, in concluding my remarks, I'd like to offer you views as to what the U.S. response can and, perhaps, should be to the Bonn Principles. I think it can be threefold. Number one, the enactment of U.S. legislation; two, the entering into various bilateral treaties and agreements, and, three, the support of various international organizations.

On the first point, the SEED I legislation, enacted last year, is a welcome start. I would encourage you to swiftly hold hearings on the SEED II bill that has been introduced, with a view to its speedy enactment. The various trade agreements, bilateral investment treaties, and new and modernized tax treaties are also very important to regularize trade and to provide the certainty that is so essential to the conduct of business. Third, the World Bank and IMF programs and policies can have a very important multiplier effect in promoting private sector investment and trade, and I would encourage the United States to be supportive of those international organizations, programs and policies.

And, in addition, the COCOM liberalization that Secretary Mosbacher discussed is extremely important to the Central and East European countries, not only with respect to their major infrastructure needs, but also to the development of a small business sector there.

Finally, I think very useful the administration's recent suggestion at the Washington summit to upgrade CSCE by giving it a permanent secretariat and staff, so that it can more vigorously move forward to the promulgation of the Bonn Principles.

That concludes my remarks.

Chairman DECONCINI. Thank you, Mr. Hart.

Mr. Ward?

STATEMENT OF WENDELL B. WARD

Mr. WARD. Thank you, Mr. Chairman.

My remarks will focus on the successful development and operation of the Warsaw Marriott Hotel.

Our negotiations on this transaction began in early 1986. Construction started in April 1987, and the hotel opened for business in October of last year.

I might say that the construction process was completed on time, and within the original construction budget, which, frankly, doesn't always happen here in the United States.

Total cost for the hotel portion of the project was about $70 million. The total project area is almost 1 million square feet. The hotel occupies about half that total area, the top 22 of the 45 floors of the tower itself. The first 3 floors are in the podium, with the next 22 floors of the 45-story tower occupied by offices available for rent. Finally, there is a large 3-story podium that's occupied by various retail and commercial enterprises.

For those of you who have been to Poland since the opening of the hotel and have had a chance to see it, I think you can appreciate the effect that a project of this size and magnitude can have on, not only the lodging industry in that country, but it acts as, I think, a very strong example to what can actually be accomplished in such markets.

The deal structure itself is as a joint venture. It's registered number 001 under the Polish Joint Venture law. LOT Polish Airlines is a 50 percent owner, ILBAU, an Austrian construction company that did the construction work, is 25 percent, and Marriott Corporation holds the remaining 25 percent ownership in the joint venture.

An Austrian bank by the name of Giro-Centrale Bank, arranged for the financing for the project, and remember the time frame, this was back in 1986–87, where the environment was substantially different from what we see today.

The total financing package arranged by Giro approached 1 billion Austrian shillings, which is about, at today's exchange rates, $85–$90 million.

The joint venture itself retains the right to use the land and the building, and the joint venture, in turn, engaged Marriott Corporation under a separate operating contract to manage the hotel for a 25-year period. There are renewal options as we approach the end of that 25 years.

I might tell you that without being specific the results to date of the hotel have been better than our original expectations from a profit standpoint. It's doing very, very well. We are very happy with it. We've received numerous compliments from people who have stayed at the hotel, and we're very excited about the prospects that it offers for us there.

One man's opinion about the ingredients for success in that particular venture, versus some of the difficulties that might await others, we were fortunate in having exceptionally good and competent partners. Also, I think the company maintained a very clear focus on what our business objectives were in that particular project, keeping in mind what we perceived to be our comparative advantages, and leveraging those comparative advantages in the marketplace. These advantages were our operating expertise, the excellent location of the building, and the vulnerable hotel competition that existed in Warsaw at that particular time.

Timing and a little bit of luck were important, no question about it. Neither I, nor none of my colleagues would claim that in 1986 we would see what's happening today. But, I might point out that we did judge the venture to be a reasonable one in the context of 1986, and we presumed no dramatic positive developments, certainly nothing like has occurred thus far.

We hope to be able to spring board off our experience in Warsaw into other markets in Eastern Europe. We have specific projects identified, and have entered into some level of hard negotiations in Prague, Budapest and Moscow. We are actively searching for opportunities throughout all of East Germany, Leningrad, Lubljana and Belgrade in Yugoslavia.

Thank you very much.

Chairman DeConcini. Thank you, Mr. Ward. I know my Cochairman has to leave shortly. I'll yield to him, if he has any questions, comments.

Cochairman Hoyer. I'd like to hear the comments of the three of you on the summit. Mr. Ericson, I think you referred to it briefly, and on the trade agreement, what effect you think that would have.

Chairman DeConcini. Mr. Ericson?

Mr. Ericson. Well, I think it is a positive step, but one that will have very little impact in the near future. The United States plays a very small role in Soviet trade. The Soviet Union plays an even smaller role in U.S. trade.

Even if it were to cause levels of trade to double, that would have a, virtually, imperceptible impact. It will be very good for some businesses, those who manage to fit into that doubling, on the U.S. side.

On the Soviet side, it's even more problematic, in that the structure of their economy has not changed to a sufficient extent to allow them to take advantage of the opportunities that that trade will open up. Now, we may be surprised come September or October when the immigration bill is passed, and if it goes through, and perhaps, Lithuania has been settled by then. There may have becn sufficient change to open up opportunities, realistic opportunities for Soviet enterprises. At the present time, however, I don't see that happening.

Chairman DeConcini. Mr. Ward?

Mr. Ward. Well, I guess, certainly, we'd look for any positive development that would create a halo effect, or a ripple effect, that would filter its way down to our level of negotiations.

I think, from my vantage point, most of us can grasp a possible benefit. I'm more concerned about how my Soviet counterpart views it, whether he understands it as well as I do, and that, of course, I can only speculate about.

Chairman DeConcini. Mr. Hart?

Mr. Hart. Yes. I agree with Professor Ericson. At least at the outset, it will be more symbolic than substantive, but I think it's an important symbolic step in extending to the business community the blessing of the U.S. Government, especially with respect to MFN status, and I would foresee it having, ultimately, an important beneficial role as sending the right signals to the business community.

Cochairman Hoyer. Let me ask you another question, Mr. Ward. One of the things that Lech Walesa and Vaclev Havel and others who have come from Central Europe have emphasized, is the need for business expertise, entrepreneurial expertise, management expertise, as opposed to simply sending money or making trade agreements per se in the exchange program.

Doctor Ericson has properly, I think, said that there are some businesses who will be able to reap significant profits if, in fact, markets are opened of the size that are available in the Soviet Union and Eastern Europe. What do you see in terms of the energizing of the American business community to involve itself in Central Europe and the Soviet Union? You've obviously done it, and you were a pioneer.

Mr. WARD. I can comment on the hotel industry and maybe more broadly the service industry. I think there are some significant opportunities there, particularly in industries like hotels which do not rely, to a significant extent, on the local market for business.

One of the easy things about putting up a hotel in one of those markets is that you are really catering to the very same segment that we do here in the United States or in Europe, which is the international traveler. That tends to mitigate many of the concerns regarding convertibility of local currency revenues too.

So, I think there are certain businesses which have an inherent—are in an inherently better position to deal with the vagaries and the fluidity of the market over there than others.

I happen to believe that the one that I'm involved in represents one of the best near-term opportunities for business growth between East and West.

I would be a little bit leery, I'm not an economist so I'm getting a little bit out of my element here, but I would be a little leery of a business that needs to rely heavily on local demand. As a consequence, it generates large revenues in local currency, certainly, in markets where you are confronted with non-convertibility or even limited convertibility.

Cochairman HOYER. Have you seen a marked or dramatic increase in the foreign visitors to Warsaw, say, in the last year?

Mr. WARD. I think there has been a tremendous demand. We measured, just after we opened our hotel in last October, that the demand in Warsaw was up at least 20 percent over the previous year.

Cochairman HOYER. That's 1986 over 1985?

Mr. WARD. That's 1989 over 1988.

It's a bit early because we've only been operating now for 6 or 8 months, and it's a little hard to extrapolate too far out because we haven't even been through a full fiscal period yet, but the mix of our business, I think, was a bit surprising. I don't know that these are precisely accurate, but, directionally, at least 60 percent of our business originates in West Germany. This makes you realize how active the German business community is in Eastern Europe; that's good evidence of it.

The magnitude of U.S. visitations to our hotel in Warsaw is just about what we would have anticipated it to be 2 or 3 years ago.

Cochairman HOYER. Lech Walesa made the point at every opportunity during his visit here, for the need to get U.S. expertise interfacing with their local people. Have you seen any sort of conferences, meetings of foreign business people, United States, West German and others, which you referred to. Is that kind of what we might refer to as convention or symposiums?

Mr. WARD. Yes. That's definitely—that's definitely a growing segment of our business activity in Warsaw.

I might add that in part, having facilities available to service that type of activity is very important, and now there is a hotel product there that's capable of providing the kind of infrastructure that's needed for useful conventions and meetings.

Whether that is a clear indication that there's going to be a rapid transfer of expertise from West to East, I don't know, but there certainly is a lot of activity toward that end.

Cochairman HOYER. I don't mean to keep picking on you, Mr. Ward, but I'm interested because you are in the private sector and sort of thinking in those terms. Are you looking at Sofia or Bucharest—is there anything going on there? Bucharest sure needs a good hotel, with all due respect to where we stay and all the time we go there.

Mr. WARD. We have spent a surprising amount of time, given our limited resources, looking at Sofia. We have not yet sent a team into Bucharest, but I think if we were presented with the right opportunity, that involved the right people, what we judge to be the right people, we certainly would go and at least take a look at the market opportunity.

Cochairman HOYER. OK.

Mr. Chairman, thank you.

Chairman DECONCINI. Thank you, gentlemen.

Let me ask you—well, let me follow up with you, Mr. Hart, while we are on the subject matter. What is the experience you are having with business rentals? Are your occupancies meeting your expectations?

Mr. WARD. In the office?

Chairman DECONCINI. In the office part of it.

Mr. WARD. Yes. That went—that space was taken up faster, and at materially higher rates than we had projected.

Chairman DECONCINI. Is that right?

And, of course, everything that is paid to you from hotel bills, to the per square foot rent is all in hard currency, is that right?

Mr. WARD. There is some local currency revenue. All of the food and beverage outlets, all the restaurants in the hotel can be paid for in local currency.

Chairman DECONCINI. Can be.

Mr. WARD. But, the room itself, the charges for the room, that's hard currency, and, of course, the office space, as is the practice throughout Warsaw, in at least premises that are occupied by foreign companies, it's always paid for in hard currency.

Chairman DECONCINI. So, you don't have any real convertibility problem——

Mr. WARD. In fact, we anticipate——

Chairman DECONCINI [continuing]. Even before the new regime came in, you didn't really have much that you'd have to convert, I guess.

Mr. WARD. In fact, we anticipate, and one reason why we hope we're well liked by the authorities there, is that, it's likely that we will have to go to the Central Bank to sell some of our surplus hard currency to buy local currency to pay local operating expenses.

Chairman DECONCINI. And, of course, that means your salaries for your employees who run the hotel, I take it, those kind of expenses you are talking about.

Mr. WARD. That's right.

Chairman DECONCINI. Mr. Ericson, when you were talking about the economic reform in the U.S.S.R., there seems to be great anticipation, but not much coming forth that we can put our hands on, except a McDonald hamburger place, a few things that have been hyped up. Is it your opinion, or can you comment, that we are not

going to really see this economic reform until we see a political reform, greater than what we've seen, what appears to me to be greater than what Mr. Gorbachev is prepared to accept, at least now?

Mr. ERICSON. It's not clear to me that the economic reform really depends on further political reform. Indeed, so far, the political reforms have been continually surprising and gone further than anyone would have anticipated in the weeks prior to the change, from the reversal on the leading role of the Party to the degree to which opposition political organizations have taken control of the major cities, have put a leader at the head of the Russian Republic and so on.

Indeed, I think the political reforms may be providing part of the reason why we don't see serious economic reform. There is a lot of populist pressure to maintain a safety net, to maintain the absolute economic security of the pre-existing Socialist system. It may have been stagnant, it may not have developed, it may have provided a low standard of living, but at least everybody had pretty much the same low standard of living, and you didn't have to worry about what the economic future was going to look like.

Chairman DECONCINI. You are saying that——

Mr. ERICSON. That's being lost.

Chairman DECONCINI. You are saying that the political reform, then, is there if the economic will or the political will was there to really move into convertibility, for instance, or something major like that.

Mr. ERICSON. Well, convertibility requires serious economic preconditions——

Chairman DECONCINI. Right.

Mr. ERICSON [continuing]. That they haven't begun building. I think the one area in which, perhaps, further political movement is required, is in the desire to maintain fairly strong control over the directions and development of the economy. There's almost this Faustian urge that one sees to keep track of everything, to make sure that everything is going right, to make sure nobody is suffering too much, to make sure that the central authorities have their fingers on every pulse. And, as long as they maintain that, they are afraid of letting go to a sufficient degree to allow markets to begin to function, to allow entrepreneurs to take risks, make decisions, get their own supplies and so on. They are afraid of a breakdown if they let go, and because of this the Government has taken the responsibility on itself for everything, from the provision of Pskov through the sales of oil abroad.

Chairman DECONCINI. How do you read then the movement by the Republic of Russia, of course, the Baltic States, and now others are talking about it, if not absolute independence, real autonomy, so as to give them their own currency, and determining their own rate of taxes that they'll pay to the central authorities? Is that likely to be conducive to better economics, or attracting in foreign investment and really moving into a market economy, or do you think it would have any effect?

Mr. ERICSON. I think in the Baltic it's apt to be conducive to that. It depends dramatically on the desires and the beliefs of those who have political power in those republics.

I think in most cases you are apt to see the recreation of a mini-command economy, or something, perhaps, somewhat more decentralized without the political side of the Stalinist system, but still very much a now Republic, as opposed to centrally run economic system, or a city run economic system with its own, in effect, foreign trade policy with other regions of the Soviet Union.

You, in fact, see that when Leningrad blockades people from Pskov and Novgorod coming in and buying consumer goods. Estonia requires a residence permit to buy consumer goods. Moscow briefly imposed, after the announced price rises, restrictions on purchases of a whole series of items, virtually, everything that was left in stores, in the interest of its own people, and it's all because of an unwillingness to let the forces of supply and demand work themselves out to some kind of an approximate equilibrium.

Chairman DECONCINI. Do you think that the republics within the Soviet Union can do that? For instance, in the Baltic States, you have Estonia with a population of only 1,600,000 people or so, last week passing laws for private ownership of their apartments, of their businesses, and then they are going to privatize their banks. I asked them how they are going to do it and they are going to sell it to anybody who wants to buy a share of stock in it, believe it or not. They are going to privatize their utilities and their cooperative farms. In your opinion, can they do that under the umbrella of a central U.S.S.R. government in Moscow? Excuse me, they are going to have their own currency, they claim, on Christmas Eve. It's going to be tied to the ruble, because they can't tie it to anything else yet, but can you comment on that?

Mr. ERICSON. Well, first, it's not clear that they are going to be given the opportunity to do something like that, unless they get true independence.

According to the law that is moving through the U.S.S.R. Congress about economic autonomy of regions, they will not have the right to use their own currency. Their banking system will not be fully independent of the Central Bank of the U.S.S.R. and so on.

I think if they do get sufficient independence to be able to truly control their own economic affairs, then Estonia is potentially as viable an economy as Denmark. It will be necessarily a small open economy, very heavily dependent on trade with its neighbors, but most of the economies in the world are, indeed, of that sort.

Chairman DECONCINI. Talking to them, I've come to the conclusion they are going to do it, with or without the Soviets. I don't know if that means armed forces in there or not.

Mr. Hart, let me ask you about convertibility. Without convertibility, is there any way that these countries can operate without coming to a convertible currency?

Mr. HART. Is there any way——

Chairman DECONCINI. Of a new economic system.

Mr. HART. I think it's highly unlikely and, indeed, would be self-defeating.

Historically, since the Second World War, trade between the Western World and the Soviet bloc countries has largely been dominated by counter-trade and offset arrangements. To date, that still is the case.

You've read in the press about the very large Pepsico countertrade arrangement necessitated by lack of ruble convertibility. Whether the recently concluded General Motors agreement can monetize trade, or will, ultimately, have to depend upon countertrade, remains to be seen. I think it's highly improbable.

Chairman DECONCINI. In a country like Czechoslovakia, which you are familiar with, or Hungary, or even Poland, how do they convert some of those national entities, institutions, like banks? Do they just sell the stock the way the Estonians told us they were going to do? They seem to think that's pretty easy to do. What are they going to do, or do you know?

Mr. HART. Well, I don't know what—in, for example, in Czechoslovakia they will do, and, frankly, I don't think they know yet what they are going to do.

I know that in Hungary, what was done initially were called spontaneous privatizations, where the nomenklatura, the managers that controlled some of the factories and companies, spontaneously sold the plant, the factory, the company to Western business interests at what were deemed scandalously low prices, and got a villa on the Riviera, and all the workers got a 20 percent wage increase.

Yet, it caused a scandal because of that national patrimony allegedly being sold off for less than fair market value.

Chairman DECONCINI. Who got the money?

Mr. HART. The nomenklatura, by and large.

As a result, Hungary has recently passed a privatization law that very formally restricts the privatization process by transferring ownership to a state property agency, with outside advisors and the like.

I suspect that Czechoslovakia will be very deliberate in its actions on privatization, and that it will be later, rather than sooner, that that occurs.

Chairman DECONCINI. Who is in the lead? Is anybody in the lead? Is Hungary, for privatization? You've told us some of the figures on joint ventures, are they also moving ahead in that direction? Has anybody actually done it?

Mr. HART. I would say you are correct. Hungary is in the lead, although privatization has not happened yet, to any significant degree.

The privatization laws are now in place in Hungary, unlike Czechoslovakia or Poland, which is a necessary, albeit not a sufficient, condition for privatization.

So, I would think that just as Hungary has led the way on joint ventures, it probably, too, will lead the way on the privatization process.

Chairman DECONCINI. What are these countries doing with trade with the Soviet Union, still just barter, primarily?

Mr. HART. Still just barter, but I believe it's diminishing. I would defer to Professor Ericson for a more detailed explanation, but it's my understanding that the role of COMECON is quickly dissolving, and that trading relationships that have grown up since World War II are disintegrating pretty quickly.

Chairman DECONCINI. Can you comment on that, Mr. Ericson? Where is the Soviet Union trading?

Mr. ERICSON. Well, it still trades mostly, largely with Eastern Europe, but all of those countries are now mutually in debt to each other on agreed on deals, things that were signed over the last 5 years, for example, shipments of energy and oil to both Poland and Hungary have fallen far short, shipments of machine tools and transportation equipment from Hungary to the Soviet Union are also behind.

The agreements are still in force.

Chairman DECONCINI. Excuse me. Is that because they are not getting the oil or whatever they are supposed to get from the Soviet Union, or is that because their production is down?

Mr. ERICSON. They are not getting what they thought they were promised and what they still need, given the structure of their industry built over the last 40 years.

They are now working on alternatives. Everybody, except, perhaps, the Soviet Union, would like to see COMECOM or CMEA disappear, but everybody has a significant portion of its economy that depends on that trade, given its present structure.

Chairman DECONCINI. That portends very poorly for the Soviet economy in the future, does it not, if they are looking for other alternatives?

Mr. ERICSON. Yes, although they will still depend on Soviet energy, and the Soviet Union is looking forward to, indeed, has asked, that next year energy be paid for in hard currency at world market prices, which will provide a shot in the arm.

Chairman DECONCINI. So, that is the major source of energy, the Soviet Union——

Mr. ERICSON. Yes.

Chairman DECONCINI [continuing]. For most all those countries?

Mr. ERICSON. Yes.

Chairman DECONCINI. And, the Soviet Union has no problems fulfilling those demands?

Mr. ERICSON. Well, it has not been fulfilling them, and it claims transportation bottlenecks, disturbances, the difficulties in Adzerbaijan led to a shortage of oil drilling and transportation equipment, which reduced the shipments into Eastern Europe.

Chairman DECONCINI. Is that your observation also?

Mr. ERICSON. That's a plausible explanation.

Chairman DECONCINI. Mr. Hart, let me ask you about the—you are familiar with, I'm sure, the Bonn Economic Conference, can you give us any observations as to the results? Have you had a chance to review that?

Mr. HART. I have not, Mr. Chairman. As I said, I was not present there, I'm a stand-in for my partner, Mr. Silverman, who was present. The remarks that I made regarding the conference, and the concluding Bonn Principles, are those with which Mr. Silverman is in accord, and he, too, I might add, noted the relative paucity of U.S. business representation at the conference, and he said that it was noted among all of the conference participants, and, hopefully, at the next conference there will be a much stronger U.S. business representation.

Chairman DECONCINI. Mr. Ericson, I'm going to let you all go, thank you very much, but before I do that, let me ask you, Mr. Ericson, when we meet, as Mr. Hoyer said, with the Soviet counter-

part from the Supreme Soviet, they really pressed the MFN, and waiving the Jackson-Vanik, and how important these trade agreements are, and, yet, all of you here seem to say that this trade agreement that was entered into is minimal or minuscule as to any real effectiveness. Is it more psychological, they don't want that kind of a stigma of not being granted MFN? Why is it such a big deal with it, if it's not ready?

Mr. ERICSON. I think it is, to a large extent, a matter of national pride. They feel like they are being treated as naughty children, and want that taken away.

There will be some increase in trade in traditional items, Russian furs, energy and so on, will not be as expensive in the United States, and we'll expect sales to go up, but it is not going to make a dramatic, qualitative difference in the sale of Soviet manufactured items, for example.

Chairman DECONCINI. Because it certainly is a sensitive point with them, and I don't know, nobody knows for sure if it's caused them to change their system or not, but it certainly is discussed a great deal, and you get a feeling from talking to them, from a legislative point of view, that, boy, if you guys would just give us this MFN, everything is going to be just hunky-dory. We, of course, tell them they've got to pass some immigration legislation.

And, it sure seems to ring a bell with them. I don't know how much real effect it has on them, but maybe its national pride, you put your finger on it.

Gentlemen, thank you very much. Your testimony has been very, very helpful to us, as we move into this new era.

[Whereupon, the hearing was concluded at 4:25 p.m.]

APPENDIXES

APPENDIX 1

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THE BONN CSCE CONFERENCE ON ECONOMIC COOPERATION IN EUROPE

March 19 - April 11, 1990

A Report Prepared by the Staff of
The Commission on Security and Cooperation in Europe

THE BONN CSCE CONFERENCE ON ECONOMIC COOPERATION IN EUROPE

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1. Summary

From March 19 to April 11, 1990, the 35 States participating in the Conference on Security and Cooperation in Europe (CSCE) convened a Conference on Economic Cooperation in Europe. This conference, held in Bonn, the Federal Republic of Germany (FRG), was attended by representatives of the business communities of the participating States in addition to governmental officials. Mandated by the Vienna Concluding Document, the major focus of the conference was on creating better conditions for Western business representatives working in Eastern countries, including better facilities and more economic and commercial information. There was also considerable discussion of economic reform efforts underway in the Soviet Union and the countries of Eastern and Central Europe, including descriptions of the legal parameters for foreign investment and joint ventures as well as efforts to make currencies in nonmarket-economy countries convertible. The conference was a useful forum for the private individual attending to establish contacts and raise practical problems regarding the conduct of business relations.

The Bonn Conference ended with the adoption by consensus of a concluding document, the first such document produced at a subsidiary CSCE meeting other than on military-security issues since 1984. Among the notable provisions of this landmark document are a list of principles on economic cooperation, based on a U.S. proposal, which include establishing democratic political systems, respecting workers' rights, allowing market forces to determine prices, protecting private property rights, and considering environmental questions in economic development. The document also contained a number of practical steps to facilitate the conduct of business relations.

The Bonn Conference took place in the aftermath of the political upheavals in Eastern Europe, the initiation of steps leading toward the unification of Germany, and statements supporting an increased role for the CSCE in efforts to maintain stability in a fast-changing Europe. These developments were very evident during the course of the meeting and contributed to its successful outcome. Similarly, the Bonn Conference and the document adopted there will likely contribute to further positive developments leading to a prosperous and undivided Europe.

2. Negotiating History of The Bonn Economic Conference

Economic cooperation, along with scientific and environmental cooperation, is covered in the second chapter -- or "Basket II" -- of the Helsinki Final Act, the document signed by the 35 leaders of the participating States in 1975 which initiated the process of CSCE follow-up meetings. For most of CSCE's history, Basket II did not received much attention, but, beginning at the third main follow-up meeting in Vienna in November 1986, economic and environmental issues in particular became a major part of the CSCE negotiations.

The FRG had first suggested that a conference on East-West economic cooperation be held within the framework of the CSCE during the preparations for the Vienna Meeting. It was introduced as an idea with strong support from both West German Chancellor Helmut Kohl and Foreign Minister Hans-Dietrich Genscher. By the time it was formally proposed in Vienna, in March 1987, it had the support of the 12 members States of the European Communities as well as of Norway. Eastern countries supported a similar, Czechoslovak proposal for an Economic Forum to be held in Prague.

From the time it was first suggested to the very conclusion of the Vienna Meeting, the United States expressed serious reservations about the FRG proposal. Among the arguments against the proposal were the fact that the conference would: duplicate work in other multilateral and bilateral fora; provide Eastern countries with a forum to attack COCOM restrictions and other Western trade policies which they did not like; give a political endorsement of East-West trade in general at a time when a differentiated approach was preferable; and turn more into a trade fair for the conclusion of business deals than a meeting to encourage economic reform. The United States and some other Western and neutral countries argued that increased trade would come about in the long run not as a result of Western governmental support or encouragement, such as through a politicized economic conference, but as a result of the restructuring of the Soviet and East European economic systems which would make Eastern goods more competitive in Western markets and foreign investment in these countries more attractive.

These arguments were all presented in the context of the need for balanced progress within the CSCE process and the need to focus less on additional meetings and more on actual implementation of Vienna provisions. Given the heavy emphasis on military-security issues at the Vienna meeting and the plethora of other proposals for follow-up meetings, it was felt that an economic conference, particularly the high-level and elaborate one proposed by the FRG, would further squeeze human rights in the CSCE process. In addition, the United States announced its opposition to Prague as the site for this or any other CSCE meeting due to actions taken by Czechoslovak authorities against dissidents, including Vaclav Havel, in November 1988.

Nevertheless, in January 1989 the United States dropped its objections to the Bonn proposal in light of the overall positive result that was being achieved at the Vienna Meeting. It also insisted on certain modifications of the proposal, including shortening it from 5 to 4 weeks (in line with other CSCE subsidiary meetings) and eliminating a mandated second-stage meeting of ministers to adopt a concluding document (which would have denied the conference the ability to decide itself if such a conclusion was warranted).

After giving consensus to the Bonn Economic Conference, the United States remained concerned about its implications while violations of human rights in the Soviet Union and East-Central Europe continued to take place. Following the major political changes in Eastern Europe and further Soviet implementation of its CSCE commitments in 1989, however, the conference was viewed in a new light. With increased economic cooperation now more desirable and economic reform possible, the United States and others now saw the conference as a useful opportunity to focus attention on the need for the development of private/cooperative economic activity in the Soviet Union and Eastern Europe as well as other reform measures. In addition, there was continued interest in emphasizing traditional Basket II items, such as better conditions for business representatives and more and better economic and commercial information, which remain problems in East-West commercial relations.

3. Organization of the Conference

While government policies relating to trade are discussed in international economic institutions such as the GATT and bilateral negotiations, the agenda for the Bonn Conference focused on practical steps which could be taken to facilitate trade between East and West, especially in those areas considered in Basket II of the Helsinki Final Act and subsequent CSCE documents.

The agenda devoted considerable attention to the development of business contacts, working conditions for business people, and the availability of economic and commercial information. It also covered the legal and other parameters for investment, joint ventures and other forms of industrial cooperation. Poor Eastern performance in these areas of Basket II has hampered East-West trade over the years, but efforts to provide greater openness to the Soviet and East European economies in the months prior to the Bonn Conference held out the possibility for progress.

The agenda for Bonn also provided for the examination of possibilities for cooperation in industries such as agro-industry and environmental protection equipment. Another agenda item focused on monetary and financial questions, including currency convertibility.

Each of these agenda items were scheduled for meetings of subsidiary working bodies during the course of the conference. In addition, the FRG hosts arranged for a series of information meetings at the conference center where representatives of the business communities could follow-up discussions held in the formal meetings. There were also plenary sessions at the beginning and end of the conference opening and closing statements.

4. The U.S. Delegation to the Conference

The U.S. delegation to the Bonn Economic Conference was led by Alan Holmer of the Chicago-based law firm of Sidley and Austin. Holmer had previously served as Deputy U.S. Trade Representative from 1987 to 1989, as well as General Counsel to the U.S. Trade Representative and Deputy Assistant Secretary of Commerce for Import Administration. John Evans, a foreign service officer in the Department of State, served as the deputy head of the U.S. delegation. Other State Department officers, experts from the Department of Commerce, representatives of the Department of Defense, and members of the Helsinki Commission staff also served on the delegation, with the U.S. Embassy in Bonn providing support with administrative and press personnel.

In line with the mandate for the conference, which called for the presence of representatives of the business communities of the participating States, the U.S. delegation also included a number of business people, economists, financial experts and trade lawyers who participated in the conference. Unfortunately, U.S. private-sector participation was not as large as that of many other delegations, and the Department of State originally was hesitant to encourage active involvement of these individuals in the formal discussions. Nevertheless, as the conference progressed and the procedures became more flexible, U.S. private representatives made up for their fewer numbers with their thorough presentations of U.S. business views and concerns.

5. The General Debate

The Bonn Economic Conference was opened by FRG Chancellor Helmut Kohl, who stressed the increased importance both of economic cooperation and the CSCE process in promoting positive change in Europe. Speaking the day after the first free elections in East Germany, he also commented positively on the prospects for German unification.

Opening statements were then given by each of the participating States. In his opening statement, U.S. Ambassador Holmer stressed the historic times in which the Bonn Conference was taking place. In defining the U.S. approach to economic cooperation, he noted the relationship between effective economic systems and democratic political systems, the influence of domestic economic measures on international trade activity, and the difficulties involved in the transition from a command economy to one that is mixed or based on free markets. On the work of the conference, he concluded: "On the heels of the political and economic revolutions of 1989, now is not the time to be timid. We have relatively little interest in a non-substantive conference that only tinkers at the margins of the issues before us."

Following the opening statements of the participating States as well as two invited organizations, the United Nations Economic Commission for Europe and the International Chamber of Commerce, the meeting broke down into subsidiary bodies to discuss the specific items on the agenda. In contrast to the heated exchanges which have transpired in CSCE meetings of the past, the discussions in Bonn had a positive tone to them, reflecting the many encouraging developments that have been taking place. The Soviet and East-Central European delegations detailed their many reform efforts but were candid in admitting that many economic problems remain, to some of which they had few if any answers. Although there were some criticisms of existing COCOM and other Western restrictions on trade, such criticisms were not raised in a polemical way. Most Soviet and East-Central European statements refrained from turning the agenda away from practical economic measures to facilitate trade to larger foreign and trade policy questions.

Western statements, by both governmental officials and by private-sector participants, acknowledged efforts underway to reform the non-market economies of the USSR and East-Central Europe. At the same time, most statements concluded that much more needs to be done and that, despite the difficulties of transition, the development of free markets and private enterprise was essential to long-term prosperity.

Western statements also detailed smaller steps that would liberalize the conduct of commercial relations. For example, one U.S. private sector participant, with the assistance of others, drew up a list of economic and commercial information, including various macro- and micro-economic statistics, which would be useful to the Western business community but is still unavailable, inaccurate or outdated in many Eastern countries. Others pointed to laws and regulations which overly restrict the parameters for foreign investment in these countries. Numerous examples were given of problems in obtaining suitable office space, the relatively high costs of such space, and the inadequacies of telecommunication equipment and other technical needs.

The delegations of those countries subject to this criticism of their Basket II performance, especially the Soviet delegation, seemed to listen carefully to these comments, welcomed the candor of the private sector participants, and answered them as best they could, noting at times what the West could do to help the situation.

On the sectors for cooperation, specifically energy, environment, agro-industry/food processing, consumer goods and town planning, many delegations outlined what they viewed as the prospects in each specific field, with good U.S. private-sector statements in most of them. Overall, there seemed to be a strong desire to increase cooperation in these fields but some speakers noted economic and financial constraints on any significant expansion of cooperation in all areas.

In a statement that was welcomed by other delegations, the Romanian delegation used the Bonn Conference to state for the record that it supported the entire draft document of the Sofia Meeting on the Protection of the Environment, which was held in October and November of last year while Ceausescu was still in power. At that time, Romania was the only country to deny consensus to the document, and it did so because of two paragraphs which dealt with the rights of independent environmental activists to make their ecological concerns known. With Romania's objection removed, the participating States intend to pursue the document's implementation, including in international organizations such as the Economic Commission for Europe.

6. Proposals

Fewer proposals were introduced at the Bonn Conference than at most CSCE meetings. The primary reason for this was that, in the weeks leading up to Bonn, the 12 CSCE States which are members of the European Communities (EC-12) prepared and circulated a comprehensive draft concluding document to be adopted by the meeting. Ireland, as President of the EC-12, formally introduced this draft as a proposal in the opening days of the meeting. This preempted the normal pattern of negotiations in the CSCE, in which specific proposals are first introduced and discussed and then combined in a draft concluding document. Given the shortness of the meeting, the EC-12 effort had the advantage of facilitating the eventual informal negotiations of a final document. At the same time, unlike strongly worded proposals, it presented compromises on some issues even before there was any discussion of what might be acceptable.

The only other major proposal introduced in Bonn was by the United States. While supporting the EC proposal for a concluding document, the U.S. delegation argued that, as in other fields covered by the CSCE, a set of principles for economic cooperation would be useful in guiding East-West trade. It therefore tabled a proposal listing 10 principles which complemented the practical measures specified in the EC draft. As stated in the proposal, these principles were:

1. Multi-party democracy based on free, periodic and general elections.

2. The rule of law and equal protection of the law based on respect for human rights and effective, accessible and just legal systems.

3. Economic activity that does not involve forced labor or discrimination against workers on political, ethnic, gender or religious grounds, or denial of the rights of workers to form and join independent trade unions.

4. Sound fiscal and monetary policies.

5. International and domestic policies which support the expansion of free and open trade, investment and unrestricted capital flows, and free transfer of capital and profits in convertible currency.

6. Free and competitive market economies in which supply and demand determine prices.

7. Full recognition and protection of the rights of citizens to hold and use private property, including intellectual property rights.

8. Unhindered exchange of goods and services among companies -- whether private or state-owned -- and individuals in both domestic and international markets, including direct contacts with customers and suppliers.

9. Prompt payment of adequate and effective compensation in the event of private property being taken for public use.

10. National economic objectives focused on productivity rather than simply production.

Other proposals were introduced by other delegations. Most listed desired amendments to the EC draft, while some dealt with more specific topics and were later reworded as amendments to the draft concluding document.

7. Negotiating a Concluding Document

From the time a CSCE meeting on economic cooperation in Europe was first proposed, the West German government and many other governments indicated their desire to have a document at such a meeting adopted. Others, including the United States, were skeptical about the utility of documents at any subsidiary meetings as long as the provisions of the Helsinki Final Act, the Madrid Concluding Document and, most recently, the Vienna Concluding Document, were being blatantly violated. As long as this was the case, it was argued, stress should be kept on a thorough and frank review of implementation at these meetings. In the absence of major, new human rights documents, moreover, a document in the field of economics became even less desirable for some if balanced progress in the CSCE process was to be maintained.

By the time the Bonn Conference convened, however, things had changed so dramatically on the European scene that all countries felt that the adoption of a document was a desired result. There were several reasons for this. First, the progress that has been taking place in the Soviet Union and in East-Central Europe has overtaken some CSCE commitments, making a statement of new goals to be reached not only desirable but necessary. A second and related reason was that such a statement was now possible, whereas consensus on ambitious, new commitments at previous meetings could not be reached. Third, as mentioned earlier, the West German hosts wanted a document which would symbolize a successful conference, especially with trade and economic ministers planning to attend the closing of the conference. Finally, and in some ways perhaps the most immediate reason for some countries, including the United States, to seek agreement to a document was a desire to demonstrate progress in all areas of the CSCE leading up to a summit meeting of participating States later in the year.

From the start, practically every delegation stated that it could support the EC-12 proposed draft document, which needed only a few amendments, as the basis for negotiations at the Bonn Conference. With neutral and non-aligned delegations coordinating informal negotiations to obtain full agreement to a final text began early in the conference. The United States offered several amendments to strengthen the document in areas where more ambitious commitments were certainly possible. The United States and some other non-EC delegations, furthermore, sought to weaken or eliminate references in the draft document that would favor EC-12 projects at the expense of projects in which non-EC States would have equal interest. The Soviet Union, on the other hand, proposed several amendments to weaken the text, taking a line that many thought represented "old-thinking" given the major economic changes being announced in Moscow at the same time.

Still, the EC-12 document contained many compromises from the very beginning, and reaching agreement to a text based on this draft was not a difficult exercise. Somewhat more difficult, however, was the insertion of the U.S.-proposed economic principles, which would strengthen the document considerably. Through a series of bilateral discussions, the U.S. delegation was able to get agreement by practically every delegation, including those of the East-Central European countries, to the principles with only a few changes. Most of these changes actually served to improve the set of principles, such as the addition of a much-needed reference to environmental protection.

The main holdout was the Soviet Union, which had stated early in the conference that it would accept no reference to private property in a final document. Fears of the meeting ending without any document led many delegations to seek to convince the United States that it should withdraw its principles. They argued that it was still too early to press the Soviets on this key issue and that doing so could threaten Gorbachev. The U.S. delegation held firm, maintaining that the Soviets needed to be pressed on this point, which, in fact, would seem to support Gorbachev's proclaimed goals for the USSR.

In the end, the Soviet delegation's position proved largely tactical, and the principles were included in the concluding document. A few additional changes were made, but the principles, including a reference to private property rights, remained. At this stage, the neutral and non-aligned coordinators put together a new draft, which included the accepted amendments to the EC-12 draft and the economic principles, which was then adopted as the concluding document of the Bonn Economic Conference.

8. Closing of the Meeting

The closing of the Bonn Conference was attended by economic or trade ministers from every participating State. U.S. Commerce Secretary Robert Mosbacher, however, was unable to attend; instead the United States was represented by Richard McCormack, Under Secretary of State for Economic and Agricultural Affairs. In his statement, McCormack read a message to the conference from President Bush saying that "concrete steps such as this Economic Conference will result in an improved standard of living . . . for all of us." FRG President Richard von Weizaecker and Foreign Minister Hans-Dietrich Genscher also addressed the conference during the closing sessions.

9. NGO Attendance

All plenary and subsidiary body sessions were open to the press and public, and the West German hosts provided excellent facilities and were extremely open to the attendance of interested non-governmental organizations (NGOs), the press and other private individuals. On several occasions, school groups even came to observe the proceedings, and the conference received considerable coverage in the European press and, to some extent, in the U.S. press as well.

Since many private-sector individuals who would have been interested in attending the Bonn Conference were actually made members of delegations, as stipulated in the mandate, there were nevertheless not a large number of NGOs present at the Bonn Conference. Three individuals representing the World Federation of Free Latvians, however, did attend. They met with several delegations to discuss the situation in the Baltic States generally, and in Latvia in particular, and circulated a set of proposed guidelines for trade and joint ventures in Latvia.

10. Congressional Activities

As with other CSCE meetings, there was congressional interest in the Bonn Conference. For example, the Chairman of the Helsinki Commission, Senator Dennis DeConcini (D-AZ), spoke to a briefing for interested non-governmental organizations at the Department of State prior to the conference. A congressional delegation -- led by Representative Bill Richardson (D-NM), a Helsinki Commissioner, and including Senator Paul Sarbanes (D-MD) and Representatives John Bryant (D-TX), David Skaggs (D-CO) and Jack Buechner (R-MO) -- attended the opening of the Bonn Conference on its return from a visit to the German Democratic Republic, where it had observed the elections. In addition, members of the Helsinki Commission staff actively participated in the conference as members of the U.S. delegation.

11. Conclusion

Overall, the Bonn Economic Conference was a success. The contacts and dialogue which developed between government officials and private-sector participants provided a greater understanding of problems which exist in the conduct of trade and business relations. In addition, the adoption of the final document was a major achievement in the CSCE process. It was the first document to be adopted at a subsidiary CSCE meeting other than on military-security issues since 1984. Its provisions included both guiding principles and practical measures, the implementation of which would lead to the enhancement of commerce between East and West. It also contained the first CSCE commitments to issues such as multi-party democracy, the rule of law, and certain workers' rights, and the many references to environmental issues demonstrated increased willingness to take needed actions in this critical area.

On the other hand, the United States could have sought a larger representation at the conference from its business community, although those who did attend more than made up for their small numbers. One concern of several participating States which developed in Bonn was the increased dominance of the EC-12 as a bloc in the CSCE process. Finally, the tense situation between Lithuania and the Soviet Union was beginning to develop during the course of the Bonn Conference, but this Helsinki-related issue received little attention in the conference itself.

The true success of the Bonn Economic Conference will be revealed well after its close, as the provisions adopted are implemented. Some of these commitments require economic adjustments which will take time to put in place. Economic imperatives and continued monitoring, however, should keep the Soviet Union and the countries of East-Central Europe moving in a positive direction.

APPENDIX 2

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STATEMENT OF DENNIS DeCONCINI, CHAIRMAN
COMMISSION ON SECURITY AND COOPERATION IN EUROPE

Hearing on East-West Trade and the Helsinki Process
June 12, 1990

From March to April of this year, the 35 States participating in the Conference on Security and Cooperation in Europe, otherwise known as the Helsinki process, met in Bonn to discuss the economic prerequisites for expanded trade between East and West. Had this Bonn Conference taken place only a year earlier, it would still have been characterized by accusatory and generally unproductive statements on contentious issues in East-West relations. Fortunately, the rapid political changes which have been sweeping through Eastern Europe and even the Soviet Union in last half of 1989 helped to cast aside the polemics of the Cold-War era, and the governments of East and West, along with the business communities of East and West, were able to sit down and have a suprisingly frank and open discussion on what really needs to be done to enhance East-West commercial relations.

The talks centered not on Western credits nor the changing of trade policies based on security or human rights concerns, but on economic reform in the Soviet Union and the countries of Eastern Europe. The theme of the Bonn Conference, evident throughout its course, was that trade between East and West is hindered first and foremost by systemic problems such as a lack of open markets, the maintenance of an artificial price system, the inability to convert currencies and, perhaps most central of all, the absence of private enterprise. Inadequate economic statistics and lacking business facilities were also considered to be inhibiting Western firms from deepening their interest in East-West trade.

Like the discussion, the document adopted in Bonn reflects these central issues. It establishes some basic principles which should guide economic reform efforts in Eastern Europe and the Soviet Union, including the creation of democratic political systems, along with practical steps to enhance the prospects for near-term trade.

As Chairman of the Helsinki Commission, which played an active role in Bonn as at other CSCE meetings, I believe that the Bonn Conference demonstrated that the Helsinki process can and should be put to better use in promoting East-West trade based on market principles and the political pluralism under which sound economic decisions are best made. The purpose of our hearing is to examine the problems and prospects for East-West trade, and to discuss how the Helsinki process can help resolve those problems that exist today and enhance the prospects for trade tomorrow. I very much look forward to hearing what Secretary of Commerce Robert Mosbacher, who has taken time from his busy schedule to be with us here today, and the three expert witnesses have to say on these matters.